

Gas Natural SDG
2015
Annual Report



gasNatural 
fenosa

Done and said

Done and said

First 'do' then 'say', that is our way

At Gas Natural Fenosa we look to focus on what really matters, on what always drives us forward: the facts. We strive to ensure that our commitments are embodied in specific facts that benefit our customers and society in general.

We believe that what is important is not what is said or promised, but rather what is done and demonstrated. That's why our communication is based on sharing those facts with our public. To this end we have built an easily accessible microsite that showcases the facts that provide value and which benefit our audiences.

So, with this report, we invite you to discover our facts. At the start of each chapter we highlight a relevant fact for which the company is responsible. And, using a QR code, you can enter the microsite where you will find further information about each fact.



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2015
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Gas Natural SDG 2015 Annual Report

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Satisfaction or refund

If a customer does not agree with the reading on the bill, we refund the amount.

Gas Natural Fenosa responds when a customer does not agree with the reading indicated on their gas or electricity bill. They need only communicate the actual reading to the customer service department, and we will refund the difference within four days to resolve the situation.

We create trusting relationships.

Done and said



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Annual Accounts

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microsite.

Audit Report



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

INDEPENDENT AUDITOR'S REPORT ON ANNUAL ACCOUNTS

To the Shareholders of Gas Natural SDG, S.A.:

Report on the Annual Accounts

We have audited the accompanying annual accounts of Gas Natural SDG, S.A., which comprise the balance sheet as at December 31, 2015, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Annual Accounts

The company's Directors are responsible for the preparation of these annual accounts, so that present fairly the equity, financial position and financial performance of Gas Natural SDG, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, as identified in Note 3 to the accompanying annual accounts, and for such internal control as Directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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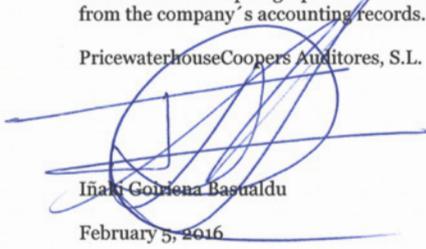
Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Gas Natural SDG, S.A. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

Report on Other Legal and Regulatory Requirements

The accompanying Directors' Report for 2015 contains the explanations which the Directors consider appropriate regarding the company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the annual accounts for 2015. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.



Iñaki Goñiena Basualdu

February 5, 2016

Balance Sheet of Gas Natural SDG, S.A.

(million euros)	31/12/15	31/12/14
Non-current assets	30,440	30,071
Intangible assets <i>(Note 7)</i>	815	1,062
Goodwill	815	1,062
Other intangible assets	–	–
Property, plant and equipment <i>(Note 8)</i>	179	1,049
Land and buildings	167	161
Plant and other PPE	12	883
PPE in course and prepayments	–	5
Long-term investments in Group companies and associates <i>(Note 9)</i>	29,308	27,779
Equity instruments	14,613	13,844
Loans to companies	14,695	13,935
Long-term investments <i>(Note 10)</i>	15	15
Equity instruments	5	7
Derivatives	1	–
Other financial assets	9	8
Deferred income tax assets <i>(Note 20)</i>	123	166
Current assets	2,739	4,761
Inventories <i>(Note 11)</i>	–	64
Raw materials and other supplies	–	64
Trade and other receivables <i>(Note 12)</i>	701	744
Trade receivables	95	38
Group companies and associates	400	466
Sundry receivables	192	75
Current income tax assets	10	164
Public Administrations	4	1
Short-term investments in Group companies and associates <i>(Note 9)</i>	730	1,082
Loans to companies	727	1,079
Other financial assets	3	3
Short-term investments <i>(Note 10)</i>	63	62
Derivatives	–	1
Other financial assets	63	61
Short-term prepayments and accrued expenses	1	3
Cash and cash equivalents <i>(Note 13)</i>	1,244	2,806
Cash in banks and at hand	1,089	2,039
Other cash equivalents	155	767
Total assets	33,179	34,832

Notes 1 to 35 form an integral part of these Annual accounts.

Balance Sheet of Gas Natural SDG, S.A.

(million euros)	31/12/15	31/12/14
Net equity (Note 14)	13,815	13,629
Shareholders' equity	13,828	13,640
Capital	1,001	1,001
Authorised capital	1,001	1,001
Share premium	3,808	3,808
Reserves	8,324	8,145
Legal and statutory	300	300
Other reserves	8,024	7,845
Profit for the year	1,103	1,083
Interim dividend	(408)	(397)
Adjustments for changes in value	(13)	(14)
Hedging operations	(13)	(14)
Grants, donations and bequests received	–	3
Non-current liabilities	15,117	16,752
Long-term provisions (Note 15)	481	617
Long-term post-employment obligations	283	289
Other provisions	198	328
Long-term borrowings (Note 16)	3,159	3,903
Borrowings from financial institutions	2,983	3,849
Derivatives	161	39
Other financial liabilities	15	15
Amounts owing to group companies and associates falling due in more than one year (Note 18)	11,239	11,894
Deferred income tax liabilities (Note 20)	237	337
Long term accruals	1	1
Current liabilities	4,247	4,451
Short-term borrowings (Note 16)	621	618
Borrowings from financial institutions	187	163
Derivatives	14	36
Other financial liabilities	420	419
Amounts owing to group companies and associates falling due in less than one year (Note 18)	2,891	2,716
Trade and other payables (Note 19)	735	1,117
Trade payables	247	279
Payables with group companies and associates	254	644
Sundry payables	196	67
Personnel (outstanding remuneration)	22	22
Current tax liabilities	–	42
Other amounts payable to Public Administrations	16	63
Total net equity and liabilities	33,179	34,832

Income Statement of Gas Natural SDG, S.A.

(million euros)	2015	2014
Net turnover <i>(Note 21)</i>	5,640	5,123
Sales	3,640	3,656
Income from equity instruments of Group companies and associates <i>(Note 9)</i>	1,542	1,120
Income from marketable securities and other financial instruments of Group companies and associates	458	347
Supplies <i>(Note 22)</i>	(3,647)	(3,366)
Consumption of goods	(3,641)	(3,334)
Raw materials and other consumables	(6)	(30)
Work carried out for other companies	–	(2)
Other operating income <i>(Note 25)</i>	361	405
Supplementary income and other operating income	359	404
Operating grants released to the income statement	2	1
Personnel costs <i>(Note 23)</i>	(191)	(212)
Wages, salaries and related expenses	(143)	(164)
Social Security	(33)	(35)
Provisions	(15)	(13)
Other operating expenses <i>(Note 24)</i>	(365)	(485)
External services	(326)	(378)
Local taxes	(2)	(78)
Impairment loss and variation in trade provisions	(8)	(4)
Other current operating expenses	(29)	(25)
Amortisation expense <i>(Notes 7 and 8)</i>	(11)	(87)
Impairment and results on disposal of financial instruments <i>(Note 9)</i>	(109)	(568)
Impairment and losses	(106)	(931)
Results on disposals and other	(3)	363
Operating profit	1,678	810
Financial income	29	46
Negotiable securities and other financial instruments	29	46
Financial expenses	(698)	(653)
Borrowings from group companies and associates	(580)	(509)
Borrowings from third parties	(118)	(144)
Variation in fair value of financial instruments	2	2
Investments	2	2
Net exchange gains / losses	(13)	2
Net financial income <i>(Note 26)</i>	(680)	(603)
Profit before tax	998	207
<i>Income tax (Note 20)</i>	105	876
Profit for the year	1,103	1,083
Basic and diluted earnings per share in Euros	1.10	1.08

Statement of Changes in Net Equity of Gas Natural SDG, S.A.

A) statement of income and expense recognised

(million euros)	2015	2014
Profit for the year	1,103	1,083
Income and expense recognised directly in net equity	(4)	(10)
Cash flow hedges	(9)	(15)
Actuarial gains and losses and other adjustments (Note 15)	4	3
Tax effect (Note 20)	1	2
Releases to income statement	8	5
Cash flow hedges	11	9
Grants, donations and bequests received	–	(1)
Tax effect (Note 20)	(3)	(3)
Total income and expense recognised in net equity	1,107	1,078

B) Statement of Total Changes in Net Equity

(million euros)	Share capital	Share premium	Reserves	Profit or loss brought forward	Profit for the year	Interim dividend	Adjustments for changes in value	Grants, donations and bequests received	Total
Balance at 01/12/2014	1,001	3,808	7,734	–	1,109	(393)	(9)	4	13,254
Total recognised revenues and expenses	–	–	1	–	1,083	–	(5)	(1)	1,078
Operations with partners or owners									
Dividends distribution (Note 14)	–	–	–	(504)	–	(397)	–	–	(901)
Trading in treasury shares	–	–	–	–	–	–	–	–	–
Other variations in net equity (Note 14)	–	–	410	504	(1,109)	393	–	–	198
Balance at 31/12/2014	1,001	3,808	8,145	–	1,083	(397)	(14)	3	13,629
Total recognised revenues and expenses	–	–	3	–	1,103	–	1	–	1,107
Operations with partners or owners									
Dividends distribution (Note 14)	–	–	–	(512)	–	(408)	–	–	(920)
Trading in treasury shares (Note 14)	–	–	2	–	–	–	–	–	2
Reductions due to business combinations	–	–	–	–	–	–	–	(3)	(3)
Other variations in net equity (Note 14)	–	–	174	512	(1,083)	397	–	–	–
Balance at 31/12/2015	1,001	3,808	8,324	–	1,103	(408)	(13)	–	13,815

Statement of cash flows of Gas Natural SDG, S.A.

(million euros)	2015	2014
Profit/(loss) for the year before tax	998	207
Adjustments to results	(1,244)	(208)
Fixed asset depreciation (<i>Notes 7 and 8</i>)	11	87
Impairment adjustments	114	936
Change in provisions	39	38
Release of grants	–	(1)
Profit/(loss) on write-offs and disposals of financial instruments	3	(363)
Financial income	(2,029)	(1,513)
Financial expenses	698	653
Gains/(losses) on exchange	13	(2)
Change in fair value of financial instruments	(2)	(2)
Other income and expenses	(91)	(41)
Changes in working capital	(463)	428
Inventories	–	3
Debtors and other receivables	(128)	345
Other current assets	1	12
Creditors and other payables	(336)	68
Other cash flows from operating activities	1,662	1,398
Interest paid	(669)	(657)
Dividends received	1,542	1,571
Interest collected	493	379
Income tax collections/(payments)	296	105
Cash flows from operating activities	953	1,825

Statement of cash flows of Gas Natural SDG, S.A. (continued)

(million euros)	2015	2014
Amounts paid on investments	(1,634)	(9,633)
Group companies and associates	(1,623)	(9,566)
Property, plant and equipment	(10)	(67)
Other financial assets	(1)	–
Amounts collected from divestments	866	1,661
Group companies and associates	865	1,660
Other financial assets	1	1
Cash flows from investing activities	(768)	(7,972)
Collections and payments financial liability instruments	(838)	6,391
Issued	4,873	11,794
Bank borrowings	287	1,007
Payables to Group companies and associates	4,583	10,787
Other payables	3	–
Repayment/redemption of	(5,711)	(5,403)
Bank borrowings	(1,165)	(758)
Payables to Group companies and associates	(4,514)	(4,632)
Other payables	(32)	(13)
Dividend payments	(909)	(897)
Cash flow from financing activities	(1,747)	5,494
Net increase/decrease in cash or cash equivalents	(1,562)	(653)
Cash and cash equivalents at the beginning of the year	2,806	3,459
Cash and cash equivalents at the year end	1,244	2,806

Notes to annual accounts of Gas Natural SDG, S.A. for the year ended 31 december 2015

Note 1. General information

Gas Natural SDG, S.A. (hereon, the Company) parent company of Gas Natural Fenosa group (hereon, Gas Natural Fenosa) was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Plaça del Gas, number 1, Barcelona.

The company's corporate purposes, as per its articles of association, comprise the following activities:

- a) All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.
- b) The activity as a holding company, incorporating companies or holding shares as a stakeholder or shareholder in other companies no matter what their corporate purposes or nature, by subscribing, acquiring or holding shares, stakes or any other securities deriving from the same, subject to compliance with the legal requirements in each and every case.

The Company's most relevant ordinary activity is the holding of shares in subsidiaries through which the Company pursues its corporate objects.

The shares of Gas Natural SDG, S.A. are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

Note 2. Regulatory framework

2.1. Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

The Spanish gas sector is regulated by Law 34/1998, October 7, on the hydrocarbons sector, as amended by Law 12/2007, July 2, Royal Decree-law 13/2012 and Law 18/2015, May 21, as well as Law 18/2014, and by its enabling regulations, the most relevant being Royal Decree 1434/2002, December 27, Royal Decree 949/2001, August 3 and Royal Decree 984/2015, 30 October.

The Ministry of Industry, Energy and Tourism (hereon, MINETUR) is the competent organisation in the regulation of the gas and electricity industries, while the National Markets and Competition Commission (CNMC) is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. Prior to the publication of Law 3/2013 of June 4, these functions were performed by the National Energy Commission (CNE), which has been integrated into the CNMC. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers.

Furthermore, the Technical Manager of the System, Enagás, S.A., is responsible for the appropriate functioning and coordination of the gas system. Thus, please bear in mind that Law 12/2007 of July 2, limits the shareholding in Enagás, S.A. to a maximum of 5% of its share capital, and voting rights to 3% in general, and the voting rights of participants in gas activities to 1%, and, in any case, the sum of the interest of the shareholders undertaking activities in the gas sector cannot exceed 40%.

In general, the Spanish gas sector has the following main characteristics:

- It is an industry in which regulated and non-regulated activities coexist. The regulated activities consist of transport, re-gasification, storage and natural gas distribution. The non-regulated activities comprise production, storage and supply of natural gas by gas supply companies.
- The natural gas sector is almost entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.
- Under EU legislation (Directives 2003/55/CE of June 26, and 2009/73/EU), the supply of natural gas in Spain is totally non-regulated, and all Spanish consumers can freely choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from 1 July 2008 of the bundled tariff of distribution companies and the subsequent right of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

The Company supplies gas that is subsequently sold mainly to other Gas Natural Fenosa companies. This activity is treated as described below:

Natural gas is supplied in Spain mainly by gas operators such as Gas Natural Fenosa under long-term contracts with gas producers. Although such supplies are not regulated, they are subject to two types of limit, basically to assure supply diversification and competition in the market: 1) no country may be source of more than 60% of the natural gas brought to Spain; and 2) as from 1 January 2003, no party or business group may bring natural gas to Spain for consumption in a volume exceeding 70% of domestic consumption, excluding self-consumption.

2.2. Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

The regulation of the electricity industry in Spain has undergone a major reform process during the year 2013 which led to the publication of Law 24/2013, of 26 December, of the Electricity Sector, which adapts the previous law (Law 54/1997, of 27 November) to the circumstances of both the economy and the power and energy sector in Spain.

The Ministry of Industry, Energy and Tourism is the body responsible for regulating the gas and electricity sectors, while the CNMC is the regulatory authority that is entrusted with the task of maintaining and ensuring effective competition and transparent functioning of Spanish energy sectors. The relevant Ministries of the Regional Governments have competencies in legislative, enforcement and legislation. The Nuclear Safety Council exercises specific competencies over the facilities using this technology.

Furthermore, the Technical System Manager, Red Eléctrica de España, S.A. (REE), has the main function of guaranteeing the continuity and safety of the electricity supply and the proper coordination of the production and transport system. Thus, please bear in mind that law provides a strict legal separation between the system operator and the activities of generation or sale of electric power.

Generally, the electricity sector has the following main features:

- It is a sector in which regulated and non-regulated activities coexist. The regulated activities consist of transport and electricity distribution. The non-regulated activities comprise generation and retailing of electricity.

Following the directives of EU legislation (Directives 2009/72/CE), all Spanish consumers can freely choose their electricity provider. A system of regulated tariff applies to consumers with contracted capacity of less than 10 kW. This regulated tariff has been referred to as the Small Consumer Voluntary Price (PVPC), and it also exists the last-resort tariff (TUR) having become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market. The social tariff (TUR) for vulnerable consumers is funded by the social bond, financed by companies engaged in electricity generation, distribution and supply activities.

- The electricity consumed in Spain is mostly generated domestically, since the international connections with France and Portugal have a very small capacity.
- Since July 1, 2007 the Iberian Electricity Market (MIBEL) has begun to operate effectively between Spain and Portugal, which has involved the integration of the electricity systems of both countries (although this integration is still not perfect).
- During the period 2000-2013, the electricity system was not self-sufficient in terms of price, an annual deficit having been generated and financed by the conventional electricity companies, including Gas Natural Fenosa.
- With the aim of eliminating the sector deficit, a number of provisions introduced in recent years have brought in important measures and adjustments to electricity sector activities to correct departures caused by mismatches between costs and revenue, culminating in the regulatory package known as the July 2013 electricity reform and the approval in December 2013 of Electricity Sector Law 24/2014, which established the basic principle of the sector's economic and financial sustainability.

Finally, on 27 December, Law 24/2013 (26 December) on the electricity sector was published, being the main developments as follows:

- With respect to the principle of the system's economic and financial sustainability:
 - The remuneration calculation parameters will have a six-year term and will be reviewed prior to the start of the regulatory period taking into account the economic cycle, demand for electricity and an adequate return from these activities.
 - A distinction is made between transport and distribution network access tolls and the charges that are necessary to cover other costs of the relevant system activities, which will be determined using methodology to be established by the Government; in general, tolls and charges will be reviewed annually or in the event of circumstances that have a material impact on regulated costs or on the calculation parameters employed.

- Small consumer voluntary prices (PVPC) are regulated and will be the same throughout Spain. These prices are defined in line with the prices previously referred to as last-resort tariffs, as the maximum prices that the reference supply companies may collect from consumers that avail themselves of the prices. The last-resort tariff (TUR) has become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the voluntary price for small consumers but are temporarily without a supply company in the free market.
- Mismatches due to a revenue deficit are limited to the extent that they may not exceed 2% of revenues estimated for the reference period and cumulative liabilities due to mismatches may not exceed 5% of those revenues. Should these limits not be observed, the relevant tolls or charges will be reviewed. The portion of the mismatch that is not offset by a rise in tolls and charges shall be financed by the parties subject to the settlement system in proportion to their debt claims arising from the activities performed. The amounts contributed in this way will be reimbursed in the settlements for the following five years, plus applicable interest. Any surplus revenues generated will be used to offset prior-year mismatches; while there are outstanding prior-year liabilities, the access tolls or charges may not be reduced.
- For year 2013, an income deficit for liquidations of the electrical system for a maximum amount of Euros 3,600 million is recognised. This deficit will generate receivables consisting in the right to receive an amount of the monthly billing for fifteen successive years beginning on January 1, 2014 until its complete satisfaction.
- The obligation to keep separate accounting records is extended, applying not only to the separation of electricity activities from non-electricity activities, but also to the separation of production with regulated remuneration activity from non-regulated. This obligation extends to all producers receiving regulated remuneration.

> Electricity generation:

- The temporary closure of generation facilities is contemplated and will be subject to prior administrative authorisation.
- Hydraulic resources that must be used to generate electricity are regulated as well as the daily market system of offers, with the particularity that all production units must offer its energy in the market, including those operating under the former special regime.
- Electricity demand and contracting, rights and obligations of electricity generators, and specific remuneration regime records are all regulated.

> System's economic and technical management:

- System operator and market operator functions are regulated, as well as the procedures for the certification of the system operator by the National Markets and Competition Commission, and for authorisation and designation as a transportation network manager by the Ministry of Industry, Energy and Tourism, which must be notified to the European Commission, and certification relating to non-European Union countries.
- Network access and connection are regulated, clearly defining the access right and connection right concepts, as well as access and connection permits, the related grant procedure and requirements, and parties responsible for granting permits subject to technical and economic criteria to be stipulated in enabling regulations.

> Electricity transport activity:

- A specific requirement is provided whereby new facilities must be included in the planning phase in order to receive its remuneration.
- The functions that must be performed by the transport company are provided, having previously been included in different laws or enabling regulations.

> Electricity distribution:

- A definition of distribution facilities is provided.
- The obligations and functions of electricity distribution companies are stipulated, distinguishing between distribution performed as the owners of distribution networks and distribution performed as networks management companies.

> Regime for inspections, infringements and penalties:

- The classification of infringements is revised and new infringements are included, certain conduct having been identified that had not been envisaged in Law 54/1997 of 27 November but has a negative impact on the electricity system's economic sustainability and functioning.
- The amount of penalties is revised, existing incidental penalties are extended and powers to impose penalties are modified.

Note 3. Basis of presentation

Gas Natural SDG, S.A. Annual accounts for 2014 were approved by the Annual General Meeting on 14 May 2015.

The Annual accounts for 2015, which were issued by the Board of Directors of Gas Natural SDG, S.A. on 29 January 2016, will be submitted to the General Meeting for approval; they are expected to be approved without any changes.

The accompanying Annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September), so as to present fairly the Company's equity and financial position at 31 December 2015, and the results, changes in equity and cash flows of Gas Natural SDG, S.A. for then ended.

The figures set out these Annual accounts are expressed in million euros, unless otherwise stated.

At 31 December 2015, the Company records negative working capital covered by dividends expected in the following year and the amount drawable on long-term credit lines (Note 17).

The consolidated Annual accounts of Gas Natural Fenosa for 2015 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and the Council. The main figures disclosed in the consolidated Annual accounts, which have been audited, are as follows:

Total assets	48,132
Equity attributed to the parent Company	14,367
Minority interest	4,151
Net turnover	26,015
Net income after tax attributed to the parent Company	1,502

Note 4. Comparability

As a result of the demerger of the nuclear generation business in favour of Gas Natural Fenosa Generación, S.L.U., with accounting effects on 1 January 2015 (Note 5), the income statement, statement of recognised income and expense and cash flow statement for 2015 do not include these activities. Consequently, this demerger must be taken into account when comparing the 2015 figures with 2014 figures.

Note 5. Demerger of Gas Natural SDG, S.A. in favour of Gas Natural Fenosa Generación, S.L.U. in 2015 and 2014

Year 2015

On 31 January 2015, the Board of Directors of Gas Natural SDG, S.A. and the Sole Administrator of Gas Natural Fenosa Generación, S.L.U. signed the Plan for the Demerger of Gas Natural SDG S.A. thermal and hydraulic in favour of the wholly-owned company Gas Natural Fenosa Generación, S.L.U. The operation was approved by Gas Natural SDG, S.A. General Shareholders' Meeting and by Gas Natural Fenosa Generación, S.L.U. Single Shareholder on 14 May 2015 and entered in the Barcelona Mercantile Register on 1 July 2015, once the legally stipulated periods had elapsed and the necessary authorisations had been obtained, with retroactive effects to 1 January 2015 for accounting purposes. Pursuant to Article 89 of Corporate Income Tax Law 27/2014, the demerger was specifically completed under the special scheme provided by Title VII, Chapter VII of that law.

As this contribution was made to a Group company, over which there is control, it was recognised, pursuant to Rule 21 of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September), by which consolidation rules are approved, at the carrying amount of the assets and liabilities handed over, in the Group's consolidated Annual accounts on the operation date.

Set out below is a breakdown of the assets and liabilities demerged from the Company at 1 January 2015 in favour of Gas Natural Fenosa Generación, S.L.U.:

Intangible assets	247
Property, plant and equipment	876
Long-term investments	2
Deferred tax assets	9
Non-current assets	1,134
Inventories	64
Other current assets	33
Current assets	97
Total assets	1,231
Grants	3
Long-term provisions	147
Long-term payables to Group companies and associates	543
Deferred tax liabilities	95
Non-current liabilities	785
Short-term financial liabilities	12
Trade and other payables	69
Current liabilities	81
Total liabilities	869
Total net assets	362

In exchange for the demerged net assets, Gas Natural SDG, S.A. received shares totalling Euros 362 million in the capital increase carried out by Gas Natural Fenosa Generación, S.L.U., incorporating investments in this company amounting Euros 362 million.

Year 2014

On 31 January 2014, the Board of Directors of Gas Natural SDG, S.A. and the Sole Administrator of Gas Natural Fenosa Generación, S.L.U. signed the Plan for the Demerger of Gas Natural SDG S.A.'s thermal and hydraulic in favour of the wholly-owned company Gas Natural Fenosa Generación, S.L.U. The operation was approved by Gas Natural SDG, S.A.'s General Shareholders' Meeting and by Gas Natural Fenosa Generación, S.L.U.'s Single Shareholder on 11 April 2014 and entered in the Barcelona Mercantile Register on 1 July 2014, once the legally stipulated periods had elapsed and the necessary authorisations had been obtained, with retroactive effects to 1 January 2014 for accounting purposes. Pursuant to Article 96 of the Corporate Income Tax Act, the demerger was specifically completed under the special scheme provided by Title VII, Chapter VIII of the Act.

As this contribution was made to a Group company, over which there is control, it has been recognised at the carrying amount of the assets and liabilities reflected in the Group's consolidated annual accounts on the operation date, pursuant to Rule 21 of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September), by which consolidation rules are approved.

Set out below is a breakdown of the assets and liabilities demerged from the Company at 1 January 2014 in favour of Gas Natural Fenosa Generación, S.L.U.:

Intangible assets	3,096
Property, plant and equipment	5,826
Long-term investments in Group companies and associates	1
Long-term investments	453
Deferred tax assets	80
Non-current assets	9,456
Inventories	176
Other current assets	13
Short-term financial assets	33
Cash and banks	4
Current assets	226
Total assets	9,682
Long-term provisions	247
Long-term financial liabilities	156
Long-term payables to Group companies and associates	5,094
Deferred tax liabilities	476
Non-current liabilities	5,973
Short-term provisions	52
Short-term financial liabilities	70
Trade and other payables	52
Current liabilities	174
Total liabilities	6,147
Total net assets	3,535

In exchange for the demerged net assets, Gas Natural SDG, S.A. received shares totalling Euros 3,535 million in the capital increase carried out by Gas Natural Fenosa Generación, S.L.U., incorporating investments in this company amounting Euros 3,535 million.

Note 6. Accounting policies

The main accounting principles applied by the Company to prepare these annual accounts are described below. For comparability, the accounting principles applicable to the assets and liabilities transferred in the demerger operation have been maintained.

6.1 Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a) Goodwill

Goodwill represents the excess, on the date of acquisition, of the cost of a business combination over the fair value of the net identifiable assets acquired at the date of the operation. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognised separately.

Goodwill is not amortised and it is tested annually to analyse possible impairment losses. It is recognised in the consolidated balance sheet at cost value less cumulative impairment losses.

The impairment of goodwill cannot be reversed.

b) Other intangible assets

Research expenditure is recognised in the income statement when incurred.

Costs associated with the production of computer software programs that are likely to generate economic profits greater than the costs related to their production are recognised as intangible assets. The direct costs include the personnel costs that has developed the computer programs.

Computer software development costs recognized as assets are amortised on a straight-line basis in four years as from the time the assets are prepared to be brought into use.

The Company does not own intangible assets with undefined useful life different from Goodwill.

6.2 Property, plant and equipment

a) Cost

Property, plant and equipment are carried at acquisition price or production cost, or at the value attributed to the asset if it is acquired as part of a business combination.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases.

Major maintenance expenditures are capitalised and amortised over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

Future costs that must be faced by Gas Natural SDG, S.A. in connection with the closure of certain facilities are included in the asset's value at their discounted value, recognising the relevant provision (Note 6.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Income statement.

b) Depreciation

The assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33-50
Technical installations (nuclear power plants)	40
Computer hardware	4
Vehicles	6
Other	3-20

Gas Natural SDG, S.A. amortises its nuclear energy plants over a useful life of 40 years, which is the theoretical useful life of their main components. However, the license to operate these plants usually covers successive 10-year periods as from their start up, while a renewal cannot be applied for until termination. However, taking into account the optimal performance of these plants, and their maintenance programs, it is considered that the renewal of these permits could be obtained at least until their 40-year useful life period has been reached.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance sheet date.

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 6.3).

6.3 Impairment of assets

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, investments in group companies and associates, long-term investments, goodwill and intangible assets that are not in use or have indefinite are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised through profit and loss for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discount cash flow method. In general, Gas Natural SDG, S.A. is considering recoverable amount to be value in use, which is calculated using the methodology described below.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs).

In the case of investments in group companies, barring investments the recoverable amount of which is determined based on the investee's equity (Note 6.4) and goodwill, the cash flows employed are based on the Strategic Plan approved by Gas Natural SDG, S.A., extended to five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The cash flows after the five-year period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the strategic plan. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The nominal growth rates used for the CGU and financial assets in Spain fluctuate between 0.6% and 1.8% (0.8% and 1.8% in 2014). Specifically, a growth rate of 1.4% has been applied to the shareholding in Unión Fenosa Gas, S.A. (1.4% in 2014). In the cases of the investees of Gas Natural Distribución Latinoamericana, S.A. (new name adopted in 2015, formerly Gas Natural Internacional, S.A.), Global Power Generation, S.A.U. and Gas Natural Fenosa Internacional, S.A. (new name adopted in 2015, formerly Unión Fenosa Internacional, S.A.), growth rates are between 1.0% and 4.9% (1.0% and 4.9% in 2014).

The cash flows have been discounted using the average costs of funds before tax. For the CGU and financial assets in Spain this cost fluctuates between 5.6% and 6.8% (6.2% and 6.5% in 2014). In the particular case of Unión Fenosa Gas, S.A. the discount rate has been 11.0% (11.7% in 2014). For the businesses in which Gas Natural Distribución Latinoamérica, S.A., Global Power Generation, S.A.U. and Gas Natural Fenosa Internacional, S.A. hold interests, rates are between 6.3% and 16.0% (7.0% and 18.0% in 2014).

The parameters used in the breakdown of the above discount rates have been:

- > Risk free bond: 10-year Bond reference market for the CGU.
- > Market risk premium: Estimate of the variable interest of each country at 10 years.
- > Deleveraged Beta: According to average of each sector in each case.
- > Local current interest rate swaps: 10-year swap.
- > Net Equity-debt ratio: Sector average.

Apart from the discount rates, the most sensitive aspects that are included in the projections used and are based on industry forecasts and historical experience are as follows:

In the case of the investment in Gas Natural Fenosa Generación, S.L.U. and Gas Natural Fenosa Renovables, S.L.U., the key assumptions that are included in the projections of this CGU are as follows:

- Electricity generated. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Gas Natural Fenosa's market share in each technology and on the expected evolution of each technology's share of the total market. It has been considered the impacts of RDL 2/2013, RDL 9/2013, Law 24/2013 and RDL 413/2014.
- Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts.
- Fuel costs. Estimated by reference to long-term supply contracts concluded by Gas Natural Fenosa, the forecast evolution of price curves and market experience.
- Operation and maintenance costs. Estimated from historical costs of managed park.
- The effect of new taxes established by Law 15/2012.

As a result of this process, in 2014 the recoverable amounts of CGU assets, calculated using the methodology described, exceeded the carrying amounts recognised in these annual accounts, except for the shares in Unión Fenosa Gas, S.A. and Nueva Generadora del Sur, S.A. (which completed the spin-off mentioned in Note 9 during 2015), so an impairment loss was recognised on those shares (Note 9).

In 2015, impairment analyses did not reveal the need to post impairment losses, except for the shares in Unión Fenosa Gas, S.A. (Note 9).

Gas Natural SDG, S.A. has carried out a sensibility analysis of the unfavourable variations which, drawing on historical experience, may reasonably affect the above-mentioned sensitive variables used as a basis for the recoverable amount of the CGUs. Specifically, the most relevant sensitivity analyses performed are as follows:

	Increase	Decrease
Discount rate	50 basis points	–
Electricity generated (%)	–	5
Electricity price (%)	–	5
Fuel and gas supply costs (%)	5	–
Tariff/remuneration evolution (%)	–	5
Operating and maintenance costs (%)	5	–
Investments (%)	5	–

These sensitivity analyses performed separately for each basic assumption would not affect the conclusions drawn to the effect that the recoverable amount exceeds the carrying amount, except for Unión Fenosa Gas, S.A., the fair value of which is similar to its carrying amount.

6.4 Financial assets and liabilities

Investments in the equity of group and multi-group companies and associates

These are stated at the lower of cost of acquisition or fair value, if the investments are acquired through a business combination, and the recoverable value. The recoverable value is determined as the larger of fair value minus cost of sale and the current value of the cash flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the equity of the investee company adjusted by any tacit capital gains subsisting at the valuation date. The provision, and as the case may be, its reversal, is carried on the income statement in which it takes place.

In non-cash contributions of a business to a group company, the investment is measured at the carrying amount of the assets and liabilities contributed, as per the consolidated Annual accounts on the transaction date. The consolidated Annual accounts of the largest group or subgroup into which the assets and liabilities are integrated, where the parent is a Spanish company, are used.

In mergers and spin-offs between group companies that involve the group's parent, directly or indirectly, the assets and liabilities acquired are measured at the amount that would be reflected in the group's Consolidated Annual accounts following the transaction. The difference between the cost of the shares handed over and the carrying amount of the assets and liabilities acquired, in the group's Consolidated annual accounts, is recognised under "Reserves" in the balance sheet.

Investments

Purchases and sales of investments are recognised on trade-date, which is the date on which Gas Natural SDG, S.A. commits to purchase or sell the asset, and are classified under the following categories:

a) Credits and financial receivables

These are non-derivative financial assets, with fixed or determinable payouts, that are not listed on an active market, and for which there is no plan to trade in the short-term. They include current assets, except for those maturing after twelve months as from the balance sheet date that are classified as non-current assets.

They are initially recorded at their fair value and then at their amortised cost using the effective interest rate method.

A provision is set up for impairment of receivables when there is objective proof that not all the outstanding amounts will be paid. The provision is the difference between the book value of the asset and the present value of the estimated future cash flows discounted at the effective interest rate.

b) Held-to-maturity financial assets

These are assets representing debt with fixed or determinable payouts and fixed maturity, which Gas Natural Fenosa plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c) Financial assets at fair value with changes to results

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the income statement for.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in either category.

They are recognised at fair value, and the changes are recorded directly in equity until the asset is sold or impaired, at which time the accumulated gains and losses in equity are taken to the Income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, Gas Natural SDG, S.A. establishes fair value by using valuation techniques. These techniques include the use of recent arm's length transactions between well-informed related parties, referring to other instruments that are substantially the same and discounted cash flow. In cases in which none of the techniques mentioned above can be used to set the fair value, the investments are recorded at cost less impairment, as the case may be.

Financial assets are written off when the contractual rights to the asset's cash flows have expired or they have been transferred; in the latter case, the risks and rewards of ownership must have been substantially transferred. Financial assets are not written off, and a liability is recognised in the same amount as the payment received, in asset assignments where the risks and rewards of ownership are retained.

Cash and cash equivalents

Cash and cash equivalents include cash at hand, time deposits with financial entities and other short-term investments noted for their great liquidity with an original maturity no longer than three months as from the acquisition date.

Borrowings

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year prorogation clauses that can be exercised by Gas Natural SDG, S.A.

Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than twelve months are considered non-current payables.

6.5 Financial derivatives and other financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

For each hedging transaction, Gas Natural SDG, S.A. documents at the inception of the transaction and periodically, the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, risk management aims and hedging strategy are reviewed periodically.

A hedge is considered to be highly effective when the changes in the fair value or the cash flows of the assets hedged are offset by the change in the fair value or cash flows of the hedging instrument, with an effectiveness ranging from 80% to 125%.

The market value of the different financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year-end listed price.
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year end market conditions, based on market conditions as at Consolidated balance sheet date or, for some non-financial items, on best estimation on forward curves of said non-financial item.

Fair values obtained in absence of risk are adjusted by the expected impact of the risk of counterparty credit observable in positive valuation scenarios and the impact of own credit risk in observable negative valuation scenarios.

The embedded derivatives in other non-financial instruments are booked separately as derivatives only when their economic characteristics and tacit risks are not closely related to the instruments in which they are embedded and when the whole is not being booked at fair value through profit and loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives eligible for hedge accountings

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the Income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

Amounts accumulated in equity are reclassified to the Income statement in the periods when the hedged item will affect profit or loss.

c) Hedges of net foreign investments

Fair value hedge accounting is applied to the differences arising from the exchange rates on loans in foreign currency for financing foreign investments in-group and multi-group companies and associates made in the same functional currency.

2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income statement.

3. Energy purchase and sale agreements

During the normal course of its business Gas Natural SDG, S.A. enters into energy purchase and sale agreements which in most cases include "take or pay" clauses, by virtue of which the buyer takes on the obligation to pay the value of the energy contracted independently of whether he receives it or not. These agreements are executed and maintained in order to meet the needs of receipt of physical delivery of energy projected by Gas Natural SDG, S.A. in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted as the case may be by physical delivery. Consequently, these are negotiated contracts for "own use", and, accordingly, lie beyond the standards on valuation of financial instruments.

6.6 Non-current assets held for sale and discontinued activities

Gas Natural SDG, S.A. classifies as held-for-sale assets those assets for which, at the year end, active initiatives have been initiated for their sale, which is estimated to take place within the next twelve months.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation, since the date they are classified as non-current assets held for sale.

Additionally, Gas Natural SDG, S.A. treats components (cash-generating units or groups of CGUs) representing a business line or geographic area of operations that is significant and may be analysed separately from the rest, and has been sold or otherwise disposed of, or meets the conditions to be classed as held for sale, as discontinued operations. Entities acquired solely for resale are also classed as discontinued operations.

6.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost.

Costs of inventories include the cost of raw materials and those that are directly attributable to the acquisition and/or production, including the costs of transporting inventories to the current location.

Nuclear fuel is valued on the basis of the costs actually incurred in its acquisition and preparation. The consumption of nuclear fuel is charged to the income statement on the basis of the energy capacity consumed.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. For raw materials, it is evaluated whether or not the net realizable value of finished goods is greater to their production cost.

6.8 Share capital

Share capital is represented by ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of taxes, are deducted from equity as a deduction from Reserves or share premium in the case of issues of capital with premiums.

Dividends on ordinary shares are recognised as a deduction from equity in the period they are approved.

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The gains and losses on disposal of treasury shares are recognised under "Reserves" in the Balance sheet.

6.9 Earnings per share

Basic earnings per share are calculated as a quotient between profit or loss for and the average weighted number of ordinary shares in circulation during this period excluding the average number of treasury stock held by Gas Natural SDG, S.A.

Diluted earnings per share are calculated as a quotient between profit or loss for attributable to the ordinary shareholders adjusted by the effect attributable to the potential ordinary shares having a dilutive effect and the average weighted number of ordinary shares in circulation during this period, adjusted by the average weighted number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these have been placed in circulation during the period itself.

6.10 Provisions for employee obligations

a) Post-employment pension obligations and the like

Defined contribution plans

Gas Natural SDG, S.A., together with other group companies, is the promoter of a joint occupational pension plan, which is defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies, which are assured.

Additionally, there is a defined contribution plan for a group of executives, for which Gas Natural SDG, S.A. undertakes to make certain contributions to an insurance policy. Gas Natural SDG, S.A. guarantees this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

The contributions made have been recognised in "Staff costs" in the Income statement

Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been transferred out of the company in the form of single premium insurance policies under Royal Decree 1588/1999, 15 October, which adopted the Regulations on the instrumentation of pension commitments.

The liability recognised on the Balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised entirely in the period in which they arise, directly in equity reserves.

Past service costs are recognised immediately in the Income statement, in "Staff costs".

b) Other post-employment benefit obligations

Gas Natural SDG, S.A. provides for post-employment benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to income in "Reserves".

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Gas Natural SDG, S.A. recognises a liability when current employees are laid off based on a detailed formal plan that cannot be withdrawn; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which Gas Natural SDG, S.A. has decided to give its consent to voluntary redundancies once they have been requested by the employees.

d) Share Acquisition Plan

In 2012, a Share Acquisition Plan 2012-2013-2014 was initiated, addressed to Gas Natural Fenosa employees who fulfil certain conditions and join the plan voluntarily, allowing them to receive part of their remuneration in shares of Gas Natural SDG, S.A., to a maximum limit of Euros 12,000. The cost of the shares acquired has been recognised in "Staff costs" in the Income statement.

6.11 Provisions

Provisions are recognised when Gas Natural SDG, S.A. has a present legal or implicit obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the Company's best estimate of expenditure required to settle the present obligation at the Balance sheet date.

When it is expected that part of the disbursement needed to settle the provision is paid by a third party, the payment is recognised as a separate asset, provided that its receipt is practically assured.

Gas Natural SDG, S.A. has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it is recorded under Property, plant and equipment the current value of the cost that these tasks would incur, which, in the case of nuclear plants, includes the time until ENRESA, the public entity, takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded under "Financial expenses".

In the contracts in which the obligations borne include inevitable costs greater than the economic profit expected to be received from them, the expenses and respective provisions are recognised in the amount of the current value of the existing difference.

6.12 Leases

a) Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

The Company acts as lessee in various financial leasing contracts. These leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term liabilities except for those falling due more than twelve months. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life.

b) Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

6.13 Income tax

Corporate income tax expense (revenue) includes the deferred tax expense (revenue) and the current tax expense (revenue), which is the amount payable (or refundable) on the tax profit for.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the Annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realized.

Deferred tax arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable income will be available against which to offset temporary differences and apply tax credits.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to losses or profits, or to reserves, depending on the account to which the original amount was charged or credited.

6.14 Revenue recognition and payments for regulated activities

a) General

Sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Net turnover for the year includes the estimate of the energy supplied that has not yet been invoiced

The expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts.

b) Income from the gas business

Note 2.1. describes the basic aspects of the applicable regulation to the gas sector.

c) Income from electricity activities

Note 2.2. describes the basic aspects of the applicable regulation to the electricity sector.

From 2006 to 2013, given that the income collected by the companies in the Spanish electricity industry has not been sufficient to remunerate the different activities and costs of the system, the companies themselves, including the Company, were forced to finance this income deficit until its definite funding. After successive auctions and transfers of outstanding receivables, in 15 December 2014 the securitization of the electricity system deficit was closed .

d) Other income and expenses

In accounting for revenues from the service provision agreements is used the percentage realisation method in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year end, calculated as a proportion of the costs incurred at that date of the estimated costs required to fulfil the contract.

If the income from the contract cannot be estimated reliably, the costs (and respective income) are recorded in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on cost and income planning.

In the event that the total costs exceed the contract revenues, this loss is recognised immediately in the Income statement for the year.

Interest incomes and expenses are recognised using the effective interest method. Dividend income is recognised when the right to collect the dividend is established.

The holding of shares in Group companies and associates is deemed to be the Company's most relevant ordinary activity from which periodic revenue is obtained. In accordance with the stance adopted by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of net revenue in holding companies (Reply number 2 in ICAC Official Gazette number 79), dividends from Group companies and associates, and interest received on loans granted to Group companies and associates, are recognised as "Revenue". Additionally, the item "Impairment and results on disposal of equity instruments of Group companies and associates" is included in "Operating profit/(loss)".

6.15 Transactions in foreign currency

Foreign currency transactions are translated to euro using the exchange rates in force at the transaction dates. Gains and losses resulting from the settlement of these transactions and translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

6.16 Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in merger, de-merger or non-cash contribution operations of a business, the assets that make up the acquired business are stated at the amount corresponding to the same once the operation takes place in the Consolidated Annual accounts of Gas Natural Fenosa.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the merging company, is recorded under "Reserves" in the balance sheet.

6.17 Joint operations

Joint operations are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the venturers.

The assets and liabilities assigned to joint operations and the assets that are controlled jointly are recorded on the Balance sheet in accordance with the percentage of the interest and classified according to their nature. Likewise, incomes and expenses from joint operations are reflected in the Income statement in accordance with their nature. In both cases, according to the percentage held by each venturer.

The Company records its interest in economic interest groups under "Long-term investments in group companies and associates" on the Balance sheet.

The economic interest groups, joint ownerships and temporary business unions of investee companies of Gas Natural SDG, S.A. have used generally accepted accounting principles as their accounting policies.

6.18 Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of Gas Natural SDG, S.A. in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

6.19 Cash flows Statements

The cash flows statements have been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

- a) Operating activities: activities that constitute ordinary Gas Natural SDG, S.A. revenues, as well as other activities that cannot be qualified as investment or financing.
- b) Investment activities: acquisition, sale or disposal and other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

6.20 Significant accounting estimates and judgments

The preparation of Annual accounts requires the formulation of estimates and judgments. The valuation standards that require a large number of estimates are set out below:

- a) Intangible assets and Property, plant and equipment (Notes 6.1 and 6.2)

The determination of useful life of intangible assets and property, plant and equipment requires estimates of their degree of use, as well as expected technological evolution. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

- b) Impairment of assets (Note 6.3)

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the projections approved by Gas Natural SDG, S.A., which have historically been substantially met.

- c) Derivatives or other financial instruments (Note 6.5)

The fair value of financial instruments traded in active markets is based on quoted market prices at the Balance sheet date. The quoted market price used for financial assets is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Gas Natural SDG, S.A. uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Gas Natural SDG, S.A. for similar financial instruments.

d) Provisions for employee benefits (Note 6.10)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. Gas Natural SDG, S.A. estimates at the year end the provision required to cover pension commitments and similar obligations, based on advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e) Provisions (Note 6.11)

Gas Natural SDG, S.A. evaluates and makes an estimate of the amounts to be settled in the future, including additional amounts relating to income tax, contractual obligations, the settlement of outstanding litigation, and other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects

f) Income tax (Note 6.13)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Gas Natural SDG, S.A. operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. Gas Natural SDG, S.A. evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. The recoverability of the deferred tax assets depends ultimately on the capacity of Gas Natural SDG, S.A. to generate sufficient tax profits during the periods in which these deferred taxes are deductible. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

Note 7. Intangible assets

Set out below there is an analysis of movements in intangible assets:

	Development	Computer software	Emission rights	Other intangible assets	Subtotal	Goodwill	Total
Cost	24	27	52	694	797	3,574	4,371
Accumulated amortisation	(24)	(24)	–	(165)	(213)	–	(213)
Net carrying value at 01/01/2014	–	3	52	529	584	3,574	4,158
Demerger scope (<i>Note 5</i>)	–	(3)	(52)	(529)	(584)	(2,512)	(3,096)
Net carrying value at 31/12/2014	–	–	–	–	–	1,062	1,062
Cost	–	2	–	–	2	1,062	1,064
Accumulated amortisation	–	(2)	–	–	(2)	–	(2)
Net carrying value at a 01/01/2015	–	–	–	–	–	1,062	1,062
Demerger scope (<i>Note 5</i>)	–	–	–	–	–	(247)	(247)
Net carrying value at 31/12/2015	–	–	–	–	–	815	815
Cost	–	2	–	–	2	815	817
Accumulated amortisation	–	(2)	–	–	(2)	–	(2)
Net carrying value at 31/12/2015	–	–	–	–	–	815	815

Goodwill derives from the vertical merger of Unión Fenosa, S.A. completed in 2009 and is attributable to the benefits and synergies arising from the integration with the Gas Natural Fenosa Group.

At 31 December 2015, intangible assets include fully-amortised assets still in use totalling Euros 2 million (Euros 2 million at 31 December 2014).

No fully-amortised assets were written off in 2015 (Euros 20 million at 31 December 2014).

Note 8. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2015 and 2014:

	Land and buildings	Plant and other property, plant and equipment	Fixed assets under construction	Total
Cost	294	11,896	155	12,345
Accumulated depreciation	(74)	(5,373)	–	(5,447)
Net carrying value at 01/01/2014	220	6,523	155	6,898
Investment	9	1	21	31
Depreciation	(8)	(79)	–	(87)
Demerger scope (<i>Note 5</i>)	(60)	(5,615)	(151)	(5,826)
Reclassifications and transfers	–	53	(20)	33
Net carrying value at 31/12/2014	161	883	5	1,049
Cost	237	2,316	5	2,558
Accumulated depreciation	(76)	(1,433)	–	(1,509)
Net carrying value at 01/01/2015	161	883	5	1,049
Investment	15	2	–	17
Depreciation	(9)	(2)	–	(11)
Demerger scope (<i>Note 5</i>)	–	(871)	(5)	(876)
Net carrying value at 31/12/2015	167	12	–	179
Cost	248	34	–	282
Accumulated depreciation	(81)	(22)	–	(103)
Net carrying value at 31/12/2015	167	12	–	179

At 1 January, as indicated in Note 5, the item “Plant and other PPE” basically included thermal, hydraulic and nuclear power generation assets, while at 31 December 2014 it basically included the nuclear plants.

In 2015 there have been disposals of fully-depreciated assets totalling Euros 14 million (Euros 12 million at 31 December 2014).

Property, plant and equipment include fully-depreciated assets still in use totalling Euros 20 million at 31 December 2015 (Euros 27 million in 2014).

No financial expenses were capitalised in respect of fixed assets in course during 2015 or 2014. It is Gas Natural SDG, S.A.’s policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

Gas Natural SDG, S.A. at 31 December 2015 and 31 December 2014 has no investment commitments.

Note 9. Investments in group companies and associates

A breakdown of the investments in group companies and associates is as follows:

	At 31/12/15	At 31/12/14
Equity instruments	14,613	13,844
Loans	14,695	13,935
Non-current	29,308	27,779
Loans	727	1,079
Other financial assets	3	3
Current	730	1,082
Total	30,038	28,861

Movements during 2015 and 2014 in non-current investments in group companies and associates are as follows:

	Shareholdings in group companies	Loans to group companies	Shareholdings in associates	Total
Balance at 01/01/2014	10,572	6,336	11	16,919
Additions	1,316	6,118	–	7,434
Divestments	(658)	(153)	–	(811)
Demerger scope (<i>Note 5</i>)	3,534	–	–	3,534
Reclassification	–	1,576	–	1,576
Charge/reversal provisions	(931)	–	–	(931)
Exchange differences	–	58	–	58
Balance at 31/12/2014	13,833	13,935	11	27,779
Additions	912	789	–	1,701
Divestments	(399)	(713)	–	(1,112)
Demerger scope (<i>Note 5</i>)	362	–	–	362
Reclassification	–	627	–	627
Charge/reversal provisions	(106)	–	–	(106)
Exchange differences	–	57	–	57
Balance at 31/12/2015	14,602	14,695	11	29,308

Year 2015

The most significant movements in the item “Shareholdings in Group companies and associates” in 2015 relate to:

- Demerger of the nuclear power generation business, which is transferred en bloc to the company Gas Natural Fenosa Generación, S.L.U. in exchange for shares in the beneficiary company totalling Euros 362 million (Note 5).
- Spin-off of Nueva Generadora del Sur, S.A. (owned 50% by Gas Natural SDG, S.A. and 50% by Compañía Española de Petróleos, S.A. (CEPSA)) to Genroque, S.L. and Puente Mayorga Generación, S.L. in order to separate the two 400 MW units that formed the combined cycle plant operated by Nueva Generadora del Sur, S.A.

Following the spin-off, the 50% stake in Puente Mayorga Generación, S.L. was sold to CEPSA and a 50% stake in Genroque, S.L. was purchased from CEPSA, so that each of Nueva Generadora del Sur, S.A.’s shareholders operates and manages each unit separately.

- Sale of the shareholding in the company Genroque, S.L.U. to Gas Natural Generación, S.L.U. for its carrying amount of Euros 200 million. On 30 December 2015, Gas Natural Fenosa Generación, S.L.U.’s Extraordinary General Meeting approved the vertical merger of Genroque, S.L.U. in order to fully integrate the unit into Gas Natural Fenosa’s generation facilities.
- Capital reduction and reimbursement of contributions in Clover Financial and Treasury Services, Ltd in the amount of Euros 175 million.
- Subscription for a capital increase in Nueva Generadora del Sur, S.A. in the amount of Euros 61 million.
- Gas Natural Fenosa and Kuwait Investment Authority (KIA) entered into an agreement for increase capital by USD 550 million, fully subscribed by KIA. Following this capital increase, KIA holds a 25% stake in the international generation subsidiary Global Power Generation, S.A.

Additionally, Gas Natural SDG, S.A. fully subscribed a capital increase of USD 713 million (Euros 640 million) in Global Power Generation, S.A.

- Subscription for a capital increase in Natural Re, S.A. in the amount of Euros 4 million.
- Capital contribution to offset losses in Gas Natural S.U.R. SDG, S.A. in the amount of Euros 12 million.

Year 2014

The most significant movements in the item “Shareholdings in Group companies and associates” in 2014 relate to:

- Demerger of the coal, gas, fuel oil and hydraulic electricity generation business, which is transferred en bloc to the company Gas Natural Fenosa Generación, S.L.U. in exchange for shares in the beneficiary company totalling Euros 3,535 million.

- Spin-off of Gas Natural Internacional, S.A. to Unión Fenosa Internacional, S.A. of the shares in Gas Natural Vendita, S.p.A., Gas Natural Distribuzione, S.p.A., Gas Natural Rigassificazione Italia, S.p.A., Gas Natural Puerto Rico, Inc., Gas Natural Italia, S.p.A. and Gas Natural Europe, S.A.S.

Gas Natural SDG, S.A. recognised an increase of Euros 193 million in this item, with a balancing entry in “Voluntary reserves”, in the amount of the difference between the cost of the shareholding in Gas Natural Internacional SDG, S.A. and the carrying amount of the shareholding in Unión Fenosa Internacional, S.A. based on the value of the shares received as per the Consolidated annual accounts, after adjustments to comply with the Standards for the Preparation of Consolidated Annual Accounts (NOFCAC).

- Spin-off of Gas Natural Fenosa Engineering, S.A. to Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.A. of the generation engineering business.

Gas Natural SDG, S.A. has recognised an increase of Euros 5 million in this item, with a balancing entry in “Voluntary reserves”, in the amount of the difference between the cost of the shareholding in Gas Natural Fenosa Engineering, S.A. and the carrying amount of the shareholding in Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.A. based on the value of the shares reflected in the consolidated annual accounts adjusted to comply with NOFCAC.

Subsequently, the shareholding in Gas Fenosa Ingeniería y Desarrollo de Generación, S.L. was sold to the Group company Global Power Generation, S.A. (formerly Gas Natural Electricidad, S.A.).

- Capital increases in Clover Financial and Treasury Services, Ltd in the amount of Euros 131 million and Euros 867 million, and a capital reduction of Euros 69 million.
- Capital contribution to offset losses posted by the company Gas Natural Exploración, S.L. in the amount of Euros 13 million.
- Capital contribution to offset losses posted by Gas Natural S.U.R. SDG, S.A. in the amount of Euros 14 million.
- Capital contribution to offset losses posted by Gas Natural Almacенamientos Andalucía, S.A. in the amount of Euros 4 million.
- Subscription for a capital increase in Nueva Generadora del Sur, S.A. in the amount of Euros 25 million.
- In 2014, the entire shareholding in Gas Natural Fenosa Telecomunicaciones, S.A. was sold to the private equity firm Cinven for Euros 386 million, generating a pre-tax gain of Euros 362 million. The sale of this shareholding entailed the assignment to the buyer of loans granted.
- Transfer of the shareholding in the company Operación y Mantenimiento Energy, S.A. to the Group company Global Power Generation, S.A. (formerly Gas Natural Electricidad, S.A.) as part of the reorganisation of shareholdings in the international generation business, generating a gain of Euros 1 million.
- The share premiums distributed by Unión Fenosa Distribución, S.A. (Euros 550 million) and Unión Fenosa Financiación, S.A. (Euros 2 million), relating to profits generated prior to the acquisition date, were recognised as a reduction in the carrying amount of the shares.

The cumulative provision for the impairment of shareholdings in Group companies and associates totals Euros 1,281 million at 31 December 2015 (Euros 1,326 million at 2014), relating basically to the following companies:

- Gas Natural Exploración, S.L.: the recoverable amount has been calculated on the basis of its equity. In 2015 an impairment loss of Euros 19 million was posted. The provision at 31 December 2015 totals Euros 192 million (Euros 173 million at 31 December 2014).
- Nueva Generadora del Sur, S.A.: as a result of a judgement from the Andalusia High Court ordering the dismantling of the power evacuation line, the plant's activities were temporarily suspended while actions were taken to identify an alternative route, generating the need to recognise an impairment loss of Euros 88 million, entailing a provision of Euros 151 million at 31 December 2014. As indicated previously, this company was spun off in October 2015.
- Unión Fenosa Gas, S.A.: due to a substantial breach, in 2014, by the Egyptian supplier of the agreements reached to resume gas deliveries to the Damietta (Egypt) liquefaction plant, the need arose to update the impairment analysis for the entire investment in the subsidiary, applying the calculation criteria detailed in Note 6.3. The impairment testing has been performed using the following assumptions:
 - A delay in the resumption date of gas supplies from Egypt, without affecting the legal actions initiated;
 - A possible gas supply cost increase due to the use of alternative supply sources;
 - A pre-tax discount rate of 11.7%.
 - A subsequent business growth rate of 1.4%.

The impairment analysis conducted in 2014 has identified the need to recognise an impairment loss of Euros 843 million on the shareholding in Unión Fenosa Gas to bring its value to the recoverable amount.

In 2015, the update of the Unión Fenosa Gas, S.A. impairment analysis did not affect the assumptions used in the prior-year analysis, except for the pre-tax discount rate, which was set at 11.0%, having been recognised an additional provision of Euros 86 million relating, basically to the change in the contribution made by this shareholding to consolidated results. The provision at 31 December 2015 totals Euros 1,088 million (Euros 1,002 million at 31 December 2014).

Financial income for dividends received from investments in equity instruments of group companies and associates during the years 2015 and 2014, correspond to the following companies:

	2015	2014
Unión Fenosa Distribución, S.A.	458	26
Holding Negocios Regulados Gas Natural, S.A.	336	–
Sagane S.A.	209	113
Gas Natural Comercializadora, S.A.	133	348
Gas Natural Distribución Latinoamérica, S.A.	121	118
Gas Natural Servicios SDG, S.A.	80	22
Clover Financial and Treasury Services, Ltd.	66	–
Gas Natural Aprovisionamientos SDG, S.A.	58	383
Unión Fenosa Preferentes, S.A.	42	–
Gas Natural Capital Markets, S.A.	15	1
Unión Fenosa Gas, S.A.	13	23
General de Edificios y Solares S.L.	5	–
Gas Natural Informática, S.A.	4	5
Gas Natural Fenosa Finance B.V.	1	1
Unión Fenosa Minería, S.A.	1	5
Gas Natural Fenosa Internacional, S.A.	–	20
La Propagadora del Gas, S.A.	–	4
Compañía Española de Industrias Electroquímicas, S.A.	–	1
Others	–	50
Total	1,542	1,120

At 31 December 2015 and 2014 there were no dividends pending collection.

The breakdown of shareholdings in group companies at 31 December: 2015 is set out below:

Company	Registered Office	Activity	Net carrying value 2015	Net carrying value 2014	Data at 31 december 2015							
					% shareholding			Net equity				
					Direct	Indirect	Total	Capital	Reserves ¹	Profit/(loss)	Interim dividend	Others ²
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply and commercialisation	18	18	100.0	-	100.0	1	19	242	-	(108)
Gas Natural Fenosa LNG, S.L.	Spain	Gas supply and commercialisation	2	2	100.0	-	100.0	2	-	-	-	-
Sagane, S.A.	Spain	Gas supply and commercialisation	42	42	100.0	-	100.0	95	22	177	-	-
Unión Fenosa Gas, S.A.	Spain	Gas supply and commercialisation	1,353	1,439	50.0	-	50.0	33	707	(51)	-	21
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity supply and commercialisation	121	121	100.0	-	100.0	3	102	300	(100)	(16)
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and electricity supply and commercialisation	34	22	100.0	-	100.0	2	16	(11)	-	-
Gas Natural Servicios SDG, S.A.	Spain	Gas and electricity supply and commercialisation	106	106	100.0	-	100.0	3	52	62	-	1
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	1,630	1,630	100.0	-	100.0	833	887	309	(201)	313
Holding Negocios Regulados Gas Natural, S.A.	Spain	Gas distribution	1,981	1,981	100.0	-	100.0	300	1,682	324	(295)	-
Gas Natural Fenosa Generación Nuclear, S.L.	Spain	Electricity generation	-	-	100.0	-	100.0	-	-	-	-	-
Gas Natural Fenosa Generación, S.L.U.	Spain	Electricity generation	3,897	3,535	100.0	-	100.0	552	3,305	(73)	-	3
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	397	397	100.0	-	100.0	90	104	43	-	-
Global Power Generation, S.A.U.	Spain	Electricity generation	1,608	956	75.0	-	75.0	20	1,960	80	-	92
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	1	143	50.0	-	50.0	2	-	(6)	-	-
P.H. La Perla, S.A.	Costa Rica	Electricity generation	-	1	100.0	-	100.0	-	-	-	-	-
Toledo PV A.I.E.	Spain	Electricity generation	-	-	33.3	-	33.3	-	2	1	-	-
Gas Natural Almacенamientos Andalucía, S.A.	Spain	Gas infrastructures	8	8	100.0	-	100.0	-	1	15	-	-
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	-	19	100.0	-	100.0	8	11	(28)	-	(12)
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	41	41	32.3	67.7	100.0	4	35	(6)	-	2
Natural Re, S.A.	Luxembourg	Insurance	9	8	100.0	-	100.0	9	52	4	-	18

Company	Registered Office	Activity	Net carrying value 2015	Net carrying value 2014	Data at 31 december 2015							
					% shareholding			Net equity				
					Direct	Indirect	Total	Capital	Reserves ¹	Profit/(loss)	Interim dividend	Others ²
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	-	-	75.0	25.0	100.0	-	-	-	-	-
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	4	4	98.5	-	98.5	3	11	1	-	-
General de Edificios y Solares, S.L.	Spain	Services	63	63	100.0	-	100.0	34	35	2	-	-
Clover Financial and Treasury Services, Ltd.	Ireland	Financial services	1,382	1,392	100.0	-	100.0	1,162	(6)	47	-	289
Gas Natural Capital Markets, S.A.	Spain	Financial services	-	-	100.0	-	100.0	-	-	8	(6)	-
Gas Natural Fenosa Finance, B.V.	Netherlands	Financial services	7	7	100.0	-	100.0	-	2	(3)	-	4
Unión Fenosa Financiación, S.A.	Spain	Financial services	11	11	100.0	-	100.0	1	-	-	-	-
Unión Fenosa Financial Services USA, Llc.	USA	Financial services	-	-	100.0	-	100.0	-	6	3	-	66
Unión Fenosa Preferentes, S.A.	Spain	Financial services	-	-	100.0	-	100.0	-	29	5	-	107
Gas Natural Informática, S.A.	Spain	IT services	20	20	100.0	-	100.0	20	8	5	-	-
Gas Natural Fenosa Engineering, S.L.U.	Spain	Engineering services	24	24	100.0	-	100.0	-	19	3	-	-
Gas Natural Distribución Latinoamérica, S.A.	Spain	Holding company	558	558	100.0	-	100.0	402	236	(15)	-	-
Gasifica, S.A.	Spain	Holding company	3	3	10.0	45.0	55.0	2	9	1	-	-
La Energía, S.A.	Spain	Holding company	11	11	100.0	-	100.0	11	5	-	-	-
La Propagadora del Gas, S.A.	Spain	Holding company	10	10	100.0	-	100.0	10	1	-	-	-
Gas Natural Fenosa Internacional, S.A.	Spain	Holding company	945	945	100.0	-	100.0	250	436	(10)	-	-
Unión Fenosa Minería, S.A.	Spain	Holding company	316	316	100.0	-	100.0	11	169	1	-	-
Total			14,602	13,833								

Appendix I to Gas Natural Fenosa's consolidated annual accounts provides a breakdown of other indirect shareholdings.

¹ Includes the share premium, reserves, prior-year losses and retained earnings.

² Includes measurement adjustments, other equity instruments and grants, donations and bequests.

The non-current loans to group companies which at 31 December 2015 total Euros 14,695 million mature in 2017 (at 31 December 2014, Euros 13,935 million mature in 2016).

Set out below are movements during 2015 and 2014 in loans and other current financial assets:

	Loans to group companies	Other financial assets	Total
Balance at 01/01/2014	822	452	1,274
Additions	2,381	3	2,384
Divestments	(487)	(452)	(939)
Reclassifications	(1,637)	–	(1,637)
Balance at 31/12/2014	1,079	3	1,082
Additions	1,282	–	1,282
Divestments	(448)	–	(448)
Reclassifications	(1,186)	–	(1,186)
Balance at 31/12/2015	727	3	730

There are no significant differences between carrying values and fair values in the balances under Loans to group companies and other receivables.

The item “Loans to Group companies” relates to the cash pooling balances with investee, as manager of the Group centralised cash. It also includes accrued unmatured interest of Euros 31 million (Euros 30 million in 2014).

At 31 December 2015, loans to Group companies and associates have borne interest at a rate of 2.89% (3.32% in 2014) in the case of non-current amounts, and 1.03% (1.22% in 2014) in the case of current amounts.

Note 10. Investments

The breakdown of investments by category is as follows:

At 31 December 2015	Available for sale	Loans and other receivables	Assets at fair value through P&L	Hedging derivatives	Total
Equity instruments	5	–	–	–	5
Derivatives (Note 17)	–	–	1	–	1
Other financial assets	–	9	–	–	9
Non-current investments	5	9	1	–	15
Other financial assets	–	63	–	–	63
Current investments	–	63	–	–	63
Total	5	72	1	–	78

At 31 December 2014	Available for sale	Loans and other receivables	Assets at fair value through P&L	Hedging derivatives	Total
Equity instruments	7	–	–	–	7
Other financial assets	–	8	–	–	8
Non-current investments	7	8	–	–	15
Derivatives (<i>Note 17</i>)	–	–	1	–	1
Other financial assets	–	61	–	–	61
Current investments	–	61	1	–	62
Total	7	69	1	–	77

Available-for-sale financial assets

The main variations in available-for-sale financial assets are as follows:

	2015	2014
At 1 January	7	7
Demerger scope (<i>Note 5</i>)	(2)	–
At 31 December	5	7

All available-for-sale financial assets relate to unlisted shareholdings at 31 December 2015 and 31 December 2014.

Loans and other receivables

The breakdown of Loans and other receivables is as follows:

	At 31/12/15	At 31/12/14
Loans to companies	2	2
Deposits and guarantee deposits	7	6
Non-current	9	8
Deposits and guarantee deposits	63	61
Current	63	61
Total	72	69

Note 11. Inventories

The breakdown of inventories is as follows:

	At 31/12/15	At 31/12/14
Nuclear fuel	–	64
Total	–	64

Note 12. Trade and other receivables

The breakdown of this account is as follows:

	At 31/12/15	At 31/12/14
Trade receivables	116	51
Trade receivables, group companies and associates	400	466
Sundry receivables	11	42
Provision	(21)	(13)
Derivatives (<i>Note 17</i>)	181	33
Current income tax asset	10	164
Public Administration	4	1
Total	701	744

In general, amounts billed pending collection do not bear interest, being the average maturity period less than 18 days.

Movements in the bad debt provision are as follows:

	2015	2014
Balance at 1 January	(13)	(10)
Net charge for the year (<i>Note 24</i>)	(8)	(4)
Others	–	1
Balance at 31 December	(21)	(13)

Note 13. Cash and cash equivalents

Cash and cash equivalents include:

	At 31/12/15	At 31/12/14
Cash at banks and in hand	1,089	2,039
Other cash equivalents	155	767
Total	1,244	2,806

Investments in "Other Cash equivalents" mature within less than three months at a weighted effective interest rate of 0.41% at 31 December 2015 (0.76% at 31 December 2014).

Note 14. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during the years 2015 and 2014 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 1 January 2014	1,000,689,341	1,001	3,808	4,809
Capital increase:	-	-	-	-
At 31 December 2014	1,000,689,341	1,001	3,808	4,809
Capital increase:	-	-	-	-
At 31 December 2015	1,000,689,341	1,001	3,808	4,809

All issued shares are fully paid up and carry equal voting and dividend rights.

The Spanish Companies Act specifically allows the use of the "Share premium balance" to increase capital and imposes no specific restrictions on its use.

In 2015, 2,899,180 treasury shares were acquired for Euros 58 million and sold for Euros 60 million. In 2014, 1,128,504 treasury shares were acquired for Euros 23 million, of which 174,998 shares amounting to Euros 3 million were handed over to the Group's employees as part of their 2014 remuneration under the Share Purchase Plan 2012-2013-2014 (Note 6.10.d), the remainder having been sold in the amount of Euros 20 million. Gas Natural Fenosa held no treasury shares at year-end 2015 and 2014.

According to available public information or notifications sent to the Company, the most relevant shareholdings in Gas Natural SDG, S.A. at December 2015 are as follows:

	Shareholding %
"la Caixa" Group	34.4
Repsol Group	30.0
Sonatrach	4.0

All the shares of Gas Natural SDG, S.A. are traded on the four official Spanish Stock Exchanges, the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The share price at the end of 2015 of Gas Natural SDG, S.A. is Euros 18.82 (Euros 20.81 at 31 December 2014).

Reserves

Reserves includes the following:

	2015	2014
Legal reserves	200	200
Statutory reserves	100	100
RD 7/96 revaluation reserve	225	225
Goodwill reserves	947	893
Voluntary reserves	6,580	6,458
Other reserves	272	269
	8,324	8,145

Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

Statutory reserve

Under the articles of association of Gas Natural SDG, S.A., 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

Year 2015

Includes the payment of an interim dividend of Euros 0.397 per share out of 2014 profits, for a total amount of Euros 397 million, agreed on 28 November 2014 and paid out on 8 January 2015.

The proposal for the distribution of 2014 profits approved by the Annual General Meeting held on 14 May 2015 included the payment of a supplementary dividend of Euros 0.511 per share, for a total amount of Euros 512 million, paid on 1 July 2015.

On 30 October 2015, the Board of Directors of Gas Natural SDG, S.A. resolved to pay an interim dividend of Euros 0.4078 per share out of 2015 results, for a total of Euros 408 million, payable as from 8 January 2016.

The Company had sufficient liquidity to pay out the dividend at the approval date, with the necessary liquidity to proceed to payment pursuant to the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 30 October 2015 is as follows:

Profit/(loss) after tax	665
Reserves to be recognised	(41)
Maximum amount distributable	624
Forecast interim dividend payment	408
Cash resources	1,552
Undrawn credit facilities	6,839
Total liquidity	8,391

On 29 January 2016, the Board of Directors approved the following proposal for the distribution of Gas Natural SDG, S.A.'s net profit for 2015, for submission to the Annual General Meeting::

Available for distribution	
Profit/(loss)	1,103
Distribution	
To Voluntary reserve	170
To Dividend	933

This proposal for the distribution of profits prepared by the Board for approval by the Annual General Meeting includes the payment of a supplementary dividend of Euros 0.525 per share, entailing a total of Euros 525 million, on 1 July 2016.

The proposal for the distribution of 2015 profits does not include an appropriation to the goodwill reserve stipulated by Article 273 of the Spanish Companies Act since the reserve is fully provisioned.

Year 2014

This includes the payment of an interim dividend of Euros 0.393 per share out of 2013 profits, for a total amount of Euros 393 million, agreed on 29 November 2013 and paid out on 8 January 2014.

The proposal for the distribution of 2013 profits approved by the Annual General Meeting held on 11 April 2014 included the payment of a supplementary dividend of Euros 0.504 per share, for a total amount of Euros 504 million, paid on 1 July 2014.

Grants

Movements in capital grants during 2015 and 2014 are as follows:

	Capital grants
At 01/01/2014	4
Amount received	–
Released to income statement	(1)
At 31/12/2014	3
Demerger scope (<i>Note 5</i>)	(3)
At 31/12/2015	–

Movements in the above table are shown net of taxes.

Note 15. Provisions

The breakdown of provisions at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Provisions for post-employment obligations	283	289
Other provisions	198	328
Non-current provisions	481	617

Provisions for employee benefits

A breakdown of the provisions related to employee obligations is as follows:

	2015			2014		
	Pensions and other similar obligations	Other obligations to personnel	Total	Pensions and other similar obligations	Other obligations to personnel	Total
At 1 January	280	9	289	298	6	304
Contributions charged to profits	8	9	17	12	9	21
Payments during the year	(15)	–	(15)	(15)	–	(15)
Variances recognised directly in equity	(4)	–	(4)	(3)	–	(3)
Demerger scope (<i>Note 5</i>)	(1)	–	(1)	(15)	–	(15)
Transfers and other applications	6	(9)	(3)	3	(6)	(3)
At 31 December	274	9	283	280	9	289

Pensions and other similar liabilities

Most of the post-employment obligations of Gas Natural SDG, S.A. consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2015 and 31 December 2014, Gas Natural SDG, S.A. held the following defined benefit obligations for certain groups of workers:

- Pensions to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

	2015	2014
Present value of funded obligations		
At 1 January	1,112	1,079
Service cost for the year	2	2
Interest cost	21	33
Changes recognised directly in equity	(13)	84
Benefits paid	(73)	(74)
Others	8	(12)
At 31 December	1,057	1,112
Fair value of plan assets		
At 1 January	832	781
Expected yield	15	23
Contributions	1	2
Changes recognised directly in equity	(9)	87
Benefits paid	(59)	(61)
Transfers and other	3	–
At 31 December	783	832
Provisions for pensions and similar obligations	274	280

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	2015	2014
Service cost for the year	2	2
Interest costs	21	33
Expected return on plan assets	(15)	(23)
Total charge to the income statement	8	12

Benefits to be paid in the coming years for the above-mentioned commitments are as follows:

	2015	2014
1 to 5 years	4	6
5 to 10 years	30	28
More than 10 years	240	246
Provisions for pensions and similar obligations	274	280

The plan assets expressed as a percentage of total assets are as follows:

% of total	2015	2014
Bonds	100	100

Cumulative actuarial gains and losses, net of tax effects, recognised directly in equity are negative in the amount of Euros 6 million in 2015 (negative in the amount of Euros 8 million in 2014).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2015	2014
Financial assumptions	7	16
Experience	(11)	(20)
Limits on assets	–	1
At 31 December	(4)	(3)

Actuarial assumptions applied are as follows:

	At 31/12/15	At 31/12/14
Discount rate (p.a.) (%)	0.2 a 2.6	0.4 a 2.5
Expected return on plan assets (p.a.) (%)	0.2 a 2.6	0.4 a 2.5
Future salary increases (p.a.) (%)	2.0	2.0
Future pension increases (p.a.) (%)	2.0	2.0
Inflation rate (annual) (%)	2.0	2.0
Mortality table	PERMF 2000	PERMF 2000
Life expectancy:		
Men		
Retired in 2014	22.5	22.4
Retiring within 20 years	42.5	42.4
Women		
Retired in 2014	27	26.9
Retiring within 20 years	48.4	48.4

These assumptions are applicable to all the obligations homogeneously irrespective of the origin of their collective bargaining agreements.

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of health care have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability booked at 31 December 2015 and 31 December 2014, nor would it cause a relevant variation in the normal, financial costs for future years in relation to that booked in 2015 and 2014.

Other obligations with the personnel

The Company operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the group, grants the right to receive a variable remuneration in cash in the first quarter of the year after their termination. At 31 December 2015, there is a provision for the 2013-2015, 2014-2017 and 2015-2018 remuneration programmes totalling Euros 18 million (Euros 18 million at 31 December 2014 in other provisions), Euros 9 million of which are classed as non-current in 2015 (Euros 9 million 2014).

Other current and non-current provisions

The movement in current and non-current provisions is as follows:

	2015			2014		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
At 1 January	328	–	328	499	52	551
Allowances ¹	15	–	15	17	–	17
Reversals	(2)	–	(2)	–	–	–
Payments	(17)	–	(17)	(2)	–	(2)
Transfers and other	20	–	20	46	–	46
<i>Demerger scope (Note 5)</i>	(146)	–	(146)	(232)	(52)	(284)
At 31 December	198	–	198	328	–	328

¹ Includes Euros 2 million and Euros 9 million in 2015 and 2014, respectively, relating to the financial update of provisions.

The item non-current provisions includes:

- > Provisions posted to cover obligations deriving mainly from tax claims (Note 20), litigation and arbitration, and other liabilities.
- > Provisions for commitments related to power plant decommissioning, restoration and other costs show a zero balance at 31 December 2015 due to having been included in the demerger operation (Note 5) (Euros 146 million at 31 December 2014).

The item “Current provisions” included during the exercise 2014 CO₂ emissions rights provision that was transferred according to the Demerger operation (Note5).

No provision for onerous contracts was deemed necessary at 31 December 2015 or 2014.

At 31 December 2015, the estimated payment dates for these obligations are between one and five years (Euros 9 million), between five and 10 years (Euros 0 million) and more than 10 years (Euros 189 million) (2014: Euros 71 million at between one and five years, Euros 48 million at between five and 10 years and Euros 263 million at more than 10 years).

Note 16. Borrowings

The breakdown of borrowings at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Borrowings from financial institutions	2,983	3,849
<i>Derivatives (Note 17)</i>	161	39
Other financial liabilities	15	15
Non-current borrowings	3,159	3,903
Borrowings from financial institutions	187	163
<i>Derivatives (Note 17)</i>	14	36
Other financial liabilities	420	419
Current borrowings	621	618
Total	3,780	4,521

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	At 31/12/15	At 31/12/14	At 31/12/15	At 31/12/14
Borrowings from financial institutions and other financial liabilities	3,159	3,903	3,164	3,909

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2015 and 31 December 2014 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2015	2014
At 1 January	4,521	4,386
Demerger scope (<i>Note 5</i>)	(12)	(226)
Increase	845	1,297
Decrease	(1,574)	(936)
At 31 December	3,780	4,521

The following tables describe borrowings and maturities at 31 December 2015 and 2014, taking into account the impact of derivative hedges.

	2016	2017	2018	2019	2020	2021 and beyond	Total
At 31 December 2015							
Fixed	579	365	191	588	177	255	2,155
Floating	42	79	196	720	400	188	1,625
Total	621	444	387	1,308	577	443	3,780

	2015	2016	2017	2018	2019	2020 and beyond	Total
At 31 December 2014							
Fixed	112	134	443	640	386	432	2,147
Floating	506	367	99	495	670	237	2,374
Total	618	501	542	1,135	1,056	669	4,521

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 630 million of total borrowings at 31 December 2015 (Euros 105 million at 31 December 2014); variable-rate debt would amount to Euros 2,975 million at 31 December 2015 (Euros 4,341 million at 31 December 2014).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2015 and at 31 December 2014 and their maturities, taking into account the impact of the derivative hedges:

	2016	2017	2018	2019	2020	2021 and beyond	Total
At 31 December 2015							
Euro debt	589	413	373	896	577	443	3,291
USD debt	32	31	14	412	–	–	489
Total	621	444	387	1,308	577	443	3,780

	2015	2016	2017	2018	2019	2020 and beyond	Total
At 31 December 2014							
Euro debt	589	472	256	1,122	946	669	4,054
USD debt	29	29	286	13	110	–	467
Total	618	501	542	1,135	1,056	669	4,521

Borrowings bore an average effective interest rate in 2015 of 2.02% (2.23% in 2014) including the derivatives assigned to each transaction.

At 31 December 2015, this includes Euros 7 million in interest pending payment (Euros 8 million at 31 December 2014).

We set out below the most relevant financial instruments:

Bank borrowings

Bank borrowings also include other bilateral bank loans of Euros 1,670 million (Euros 1,643 million at 31 December 2014), no amounts having been drawn down on credit lines.

These payables include bank borrowings totalling Euros 625 million (Euros 400 million at 31 December 2014) that are subject to the fulfilment of certain covenants.

At the preparation date of these Annual accounts, Gas Natural SDG, S.A. is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Institutional financing

The Company records balances payable to the Official Credit Institute (ICO) relating to instruments maturing in 2018 at maximum, for a total amount of Euros 185 million (Euros 249 million in 2014).

Additionally, financing granted by the European Investment Bank (EIB) to Gas Natural SDG, S.A. has been drawn down in the amount of Euros 1,315 million, the sum of Euros 133 million being drawable on a financing line granted but not utilised (Euros 1,392 million and Euros 53 million drawable in 2014).

In October 2015, the European Investment Bank (EIB)'s Board of Directors approved a loan of up to Euros 900 million, the first tranche of which (Euros 600 million) was obtained in December but has not been utilised yet. This loan is intended to partially finance gas investments in Spain during the periods 2015 - 2018.

Note 17. Risk management and derivative financial instruments

Risk management

Gas Natural Fenosa has a series of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- > Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- > Segregation at the operating level of the risk management functions.
- > Assuring that the level of risk exposure of Gas Natural Fenosa in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- > Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Gas Natural SDG, S.A. employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates to fixed rates.

The financial debt structure at 31 December 2015 and 2014 (Note 16), after taking into account the hedges arranged through derivatives, is as follows:

	At 31/12/15	At 31/12/14
Fixed interest rate	2,155	2,147
Floating interest rate	1,625	2,374
Total	3,780	4,521

The floating interest rate is mainly subject to the fluctuations of the Euribor and the Libor.

The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2015	+50	(8)	10
	-50	8	(10)
2014	+50	(12)	22
	-50	12	(22)

Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- > Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- > Debt denominated in currencies other than local or functional currencies.
- > Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Gas Natural SDG, S.A finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits established.

The non-Euro currency with which Gas Natural SDG, S.A. operates the most is the US Dollar. The sensitivity of results and equity ("Adjustments for changes in value") of the Society to a 5% variation (increase or decrease) in the US Dollar / Euro exchange rate is as follows:

	%	2015	2014
Effect on net income before tax	+5	(1)	-
	-5	1	-
Effect on equity before tax	+5	-	-
	-5	-	-

Commodity price exchange risk

A portion of operating expenses of Gas Natural SDG, S.A. are linked to the purchase of gas for supplies for other group companies. Therefore, Gas Natural SDG, S.A. is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products. Additionally, because of the significant presence of the electricity generation business, Gas Natural SDG, S.A. is exposed to CO₂ emission rights fluctuation risk and electricity prices variations.

The exposure to these risks is managed and mitigated through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, generally through hedging instruments.

In electricity and CO₂ emission rights trading by the Company, risk is insignificant due to the low volume of transactions and the established limits placed, both on the amount and maturity date.

The sensitivity of results and equity (measurement adjustments) to changes in the fair value of derivatives contracted to hedge commodity prices and for trading purposes is analysed below:

	Increase / decrease in electricity purchase price	Effect on profit before tax	Effect on equity before tax
2015	+10 %	1	-
	-10 %	(1)	-
2014	+10 %	(17)	-
	-10 %	17	-

As regards exposure to low commodity prices, Gas Natural Fenosa has no relevant investments in upstream businesses or raw material production, so that fluctuations in commodity prices have no significant impact on asset values.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- > Gas and electricity distribution. It is a regulated activity with revenue and profit margins linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Gas Natural Fenosa's results.

- Gas and electricity. Profit margins on gas and electricity supply activities are directly affected by commodity prices. In this regard, Gas Natural Fenosa has a risk policy that stipulates the tolerance range, based on applicable risk limits, among other aspects. Measures employed to keep risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit relationship.

Credit risk

The credit risk arising from the default of a counterparty is controlled through policies that assure that wholesale sales of products are made to customers with an appropriate credit history, for which the respective solvency studies are established and based on which respective credit limits are assigned.

Various credit quality measurement models have been designed. Based on these models, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

The main guarantees negotiated are bank guarantees, guarantees and deposits.

Furthermore, the outstanding trade receivables are stated on the balance sheet net of provisions for bad debts (Note 12), estimated by Gas Natural SDG, S.A based on the age of the debt and the experience of previous years in line with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2015 and 2014 Gas Natural SDG, S.A. does not have significant concentrations of credit risk.

In order to mitigate credit risk in financial positions, derivatives have been contracted and cash surpluses are placed in banks and financial institutions that are highly solvent according to credit ratings by Moody's and S&P.

Likewise, most of the accounts receivable not due nor provided for, have a high credit rating according to the valuations of Gas Natural SDG, S.A. based on an analysis of the solvency and payment habits of each customer.

The ageing analysis of financial assets concluded that there were no unimpaired, past due financial assets at 31 December 2015 and 2014.

The impaired financial assets are broken down in Note 12.

Liquidity risk

Gas Natural SDG, S.A has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

At 31 December 2015, available cash totalled Euros 8,187 million (Euros 9,541 million in 2014), including cash and cash equivalents of Euros 1,244 million (Euros 2,806 million in 2014), undrawn bank financing and credit lines to the amount of Euros 6,943 million (Euros 6,735 million in 2014) and debt issues not utilised.

Capital management

The main purpose of capital management of Gas Natural SDG, S.A is to ensure a financial structure to optimise capital cost and maintain a solid financial position, in order to combine the creation of added value with the access to the financial markets at a competitive cost to cover financing needs.

Gas Natural Fenosa considers the following to be objective indicators of capital management: maintaining a long-term leverage ratio of approximately 50%.

The long-term credit rating of Gas Natural SDG, S.A is as follows:

	2015	2014
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31/12/15		At 31/12/14	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	–	160	–	39
Cash flow hedge	–	122	–	7
Interest rate	–	122	–	7
Cash flow hedge	–	38	–	32
Interest rate	–	38	–	32
Other financial instruments	1	1	–	–
Interest rate and foreign exchange rate	1	1	–	–
Derivative financial instruments – non current	1	161	–	39
Hedging derivative financial instruments	–	14	–	35
Fair value hedge	–	13	–	33
Exchange rate	–	13	–	33
Cash flow hedge	–	1	–	2
Interest rate	–	1	–	2
Other financial instruments	181	189	34	59
Interest rate and foreign exchange rate	–	–	1	1
Price of commodities	181	189	33	58
Derivative financial instruments current	181	203	34	94
Total	182	364	34	133

Other financial instruments include the derivatives not qualifying for hedge accounting.

The impact on the Income statement of derivative financial instruments is as follows:

	2015		2014	
	Operating Profit	Net financial Income	Operating Profit	Net financial Income
Cash flow hedges	–	(11)	–	(9)
Other financial instruments	(2)	15	5	(28)
Total	(2)	4	5	(37)

The breakdown of derivatives at December 31, 2015 and 2014, their fair value and maturities of their notional values is as follows:

	Fair value	31/12/15 Notional value						Subsequent years	Total
		2016	2017	2018	2019	2020			
Interest rate hedges									
Cash flow hedges:									
Financial swaps (EUR)	(13)	255	684	–	–	–	–	939	
Financial swaps (USD)	(1)	–	161	251	–	–	–	412	
Financial swaps (NOK)	(25)	–	–	–	–	–	101	101	
Exchange rate hedges									
Fair value hedges:									
Financial swaps (USD)	(122)	–	–	–	722	–	160	882	
Foreign exchange insurance (USD)	(13)	675	–	–	–	–	–	675	
Others									
Commodities price derivatives (EUR)	(8)	103	27	–	–	–	–	130	
	(182)	1,033	872	251	722	–	261	3,139	

	Fair value	31/12/14 Notional value						Susequent years	Total
		2015	2016	2017	2019	2019			
Interest rate hedges									
Cash flow hedges:									
Financial swaps (EUR)	(18)	555	705	434	–	–	–	1,694	
Financial swaps (USD)	(1)	203	–	144	–	–	–	347	
Financial swaps (NOK)	(15)	–	–	–	–	–	101	101	
Exchange rate hedges									
Fair value hedges:									
Financial swaps (USD)	(7)	–	–	–	–	722	160	882	
Foreign exchange insurance (USD)	(33)	689	–	–	–	–	–	689	
Others									
Commodities price derivatives (EUR)	(24)	247	21	–	–	–	–	268	
Commodities price derivatives (USD)	(1)	1	–	–	–	–	–	1	
	(99)	1,695	726	578	–	722	261	3,982	

Note 18. Borrowings from group companies and associates

The breakdown by maturity of borrowings from group companies is as follows:

Vencimiento	At 31/12/15	At 31/12/14
2015	–	2,716
2016	2,891	1,787
2017	1,602	1,492
2018	1,470	1,439
2019	1,196	1,195
2020	1,636	1,633
2021	1,238	–
Subsequent years	4,097	4,348
Total	14,130	14,610

Payables to Group companies mainly relate to issues of Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance, B.V. under the European Medium-Term Notes (EMTN) programme. This programme was created in 1999; following a number of extensions, the latest in December 2015, the programme limit is Euros 14 billion (Euros 14 billion in 2014). At 31 December 2015, a total of Euros 10,605 million principal had been utilised (Euros 10,755 million in 2014). The amount payable is included to Gas Natural Finance, B.V. for Euro Commercial Paper (ECP) issues, Euros 300 million having been utilised (Euros 554 million in 2014). The balances payable to Gas Natural Fenosa Finance, B.V. in respect of perpetual subordinated debentures amounting to Euros 1,500 million (Euros 1,000 million 2014) and the debt with Unión Fenosa Preferentes, S.A. relating to preferred shares totalling Euros 110 million (Euros 745 million in 2014).

Borrowings from group companies include interest accrued pending maturity of Euros 354 million (Euros 358 million in 2014).

Borrowings from group companies and associates accrued an average interest rate of 4.1% in 2015 (3.7% in 2014).

There are no significant differences between the carrying amounts and fair values of Payables to Group companies and associates.

Note 19. Trade and other payables

The breakdown in 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Trade payables	247	279
Trade payables with related parties	254	644
Derivatives (<i>Note 17</i>)	189	58
Other payables	7	9
Amounts due to employees (outstanding remunerations)	22	22
Public Administrations	16	63
Current tax liabilities	–	42
Total	735	1,117

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of gas purchases and within the legal limits, for other suppliers.

Payments disclosure of deferrals to suppliers. D.A 3^a "Duty of disclosure" of Law 15/2010/5 July

The total amount of payments made to suppliers during the year, with details of payment terms, in accordance with the legal tender deadlines established under Law 15/2010/5 July, which laid down measures against slow payers, is as follows:

	2015	%	2014	%
Payments made and pending payment within maximum legal period	7,195	99,97	7,377	99,96
Other	2	0,03	3	0,04
Total payments during the year	7,197	100	7,380	100
Weighted average period of payments outside legal period (days)	24	–	25	–
Deferrals exceeding legal maximum period at year end	–	–	–	–

Law 31/2014 (3 December) (containing amendments to Law 15/2010 (5 July), which had in turn amended Law 3/2004 (29 December) on measures to combat late payment in commercial transactions, requires trading companies to state their average supplier payment period in the annual accounts. In this regard, at 31 December 2015 the average supplier payment period is 24 days (24 days at 31 December 2014).

Note 20. Tax situation

Gas Natural SDG, S.A. is the parent of the tax consolidated group 53/93, in which are all the companies resident in Spain subsidiaries, directly or indirectly integrated in at least 75 % of the parent company and meet certain requirements, which involves joint determination of taxable income of the group and the deductions and allowances to the quota. The tax consolidated group for 2015 is analysed in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for the years 2015 and 2014 to taxable income is as follows:

	At 31/12/15	At 31/12/14
Accounting profit before tax	998	207
Permanent differences	(1,438)	(167)
Temporary differences		
Arising during current year	18	105
Arising in prior years	(129)	(137)
Taxable income	(551)	8

In 2015, permanent differences relate basically to the impairment of shareholdings in Group companies (Euros 106 million) and the application of the Tax Consolidation Regime, entailing negative permanent differences of Euros 1,460 million, due mainly to downward adjustments for dividends accrued during the year. In 2014, permanent differences relate basically to the impairment of shareholdings in Group companies (Euros 843 million), capital gains on share sales not subject to tax and the application of the Tax Consolidation Regime, entailing negative permanent differences of Euros 975 million, due mainly to downward adjustments for dividends accrued during the year.

In 2015 the Company posted a tax loss of Euros 551 million, which is recovered from the Tax Group companies due to the taxable income generated by them during the year.

As a result of Law 16/2013, with effect as from 1 January 2013, impairment losses on shareholdings are no longer corporate income tax deductible; a transitional regime has been established for the reversal of portfolio provisions that would have been deductible. Accordingly, in 2015 and 2014 the impairment losses recognised for shareholdings were not treated as tax deductible. The following table shows the evolution of amounts not yet included in the tax base during the year:

Company	Amounts pending inclusion in tax base in 2014 ¹	Amounts included in 2015	Amounts pending inclusion in tax base in 2015
Gas Natural Sao Paulo Sul, S.A.	22	–	22
Nueva Generadora del Sur, S.A.	44	(44)	–
Other	1	–	1
	67	(44)	23

¹Tax base in the definitive corporate income tax return.

Income tax expense is as follows:

	2015	2014
Current tax	(136)	(69)
Deferred tax	31	(807)
Total	(105)	(876)

Current corporate income tax is the result of applying a 28% tax rate (30% in 2014) to taxable income. In the tax consolidated group, tax credits applied in 2015 amounted to Euros 8 million (Euros 74 million in 2014) and no tax losses were offset. Adjustments are also included for prior-year taxable differences, entailing an increase in expense of Euros 8 million (increase of Euros 2 million in 2014).

On 27 November 2014, Corporate Income Tax Law 27/2014 was approved, stipulating a general tax rate cut from 30% to 28% for 2015 and to 25% as from 2016. However, in order to neutralise the tax rate cut, a deduction for the reversal of temporary measures has been provided to offset the economic cost of the rate cut for taxpayers that were affected by the 30% limit on the deduction of depreciation charges, or that restated fixed assets, in both cases under Law 16/2012 (27 December) on tax measures to consolidated public finances and encourage economic activities. Finally, Law 27/2014 provides an exemption regime for the transfer of significant shareholdings in resident entities that eliminates related temporary taxable differences.

In 2014, as a result of this general tax rate cut and the other changes brought in by Law 27/2014 (27 November), deferred tax assets and liabilities were remeasured based on their estimated reversal period, recognising the following impacts:

- An expense reduction of Euros 797 million in the item "Income tax expense" in the income statement.
- A charge to the item "Reserves" in the total statement of changes in equity in the amount of Euros 1 million, due to the remeasurement of items previously charged or credited to equity accounts.
- A decrease of Euros 24 million (Euros 1 million with a balancing entry in equity) in the item "Deferred tax assets" and of Euros 820 million in "Deferred tax liabilities", in the balance sheet.

Tax credits for 2014 relate basically to the reinvestment of extraordinary profits as a result of the gain obtained from the sale of Gas Natural Fenosa Telecomunicaciones, S.L.

Incomes that qualify to the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2044 (5 March) (TRLIS) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. Set out below is a breakdown of the past six years, together with 2014:

Year or sale	Income qualifying for deduction	Amount obtained from sale	Amount reinvested
2010	601	827	827
2011	621	854	854
2012	32	38	38
2013	–	–	–
2014	209	412	412
Total	1,463	2,131	2,131

The reinvestment has been made in fixed assets used in business activities both by the Company and by the other companies of the Tax group, pursuant to Article 75 of the Corporate Income Tax Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31/12/15			At 31/12/14		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Cash flow hedges	2	(1)	1	(6)	1	(5)
Grants, donations and bequests received	–	–	–	(1)	–	(1)
Actuarial gains and losses and other adjustments	4	(1)	3	3	(2)	1
	6	(2)	4	(4)	(1)	(5)

A breakdown of deferred taxes is as follows:

	At 31/12/15	At 31/12/14
Deferred tax assets	123	166
Non-current	114	157
Current	9	9
Deferred tax liabilities	(237)	(337)
Non-current	(237)	(328)
Current	–	(9)
Net deferred tax	(114)	(171)

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	Personnel liability provisions	Other provisions	Tax credits	Valuation of assets and financial instruments	Depreciation/amortisation differences	Others	Total
At 01/01/2014	137	119	7	4	37	3	307
Creation (reversal) ¹	(23)	(33)	(2)	1	5	(13)	(65)
Movements linked to equity adjustments	(2)	–	–	1	–	–	(1)
Demerger scope (Note 5)	(5)	(43)	–	–	(32)	–	(80)
Other	1	(7)	–	(1)	–	12	5
At 31/12/2014	108	36	5	5	10	2	166
Creation (reversal)	(4)	(27)	(1)	–	–	–	(32)
Movements linked to equity adjustments	(1)	–	–	(1)	–	–	(2)
Demerger scope (Note 5)	–	–	–	–	(9)	–	(9)
At 31/12/2015	103	9	4	4	1	2	123

¹ It includes the decrease due to the restatement of deferred tax assets under Law 27/2014.

Deferred tax liabilities	Depreciation/ amortisation differences	Deferred gains	Merger ¹	Others	Total
At 01/01/2014	162	254	1.103	145	1.664
Creation (reversal) ²	(17)	(42)	(711)	(102)	(872)
Demerger scope (<i>Note 5</i>)	(83)	–	(373)	(20)	(476)
Other	–	(2)	21	2	21
At 31/12/2014	62	210	40	25	337
Creation (reversal)	–	–	–	(1)	(1)
<i>Demerger scope (Note 5)</i>	(58)	–	(36)	(1)	(95)
Reclassifications/transfers	–	–	(1)	(3)	(4)
At 31/12/2015	4	210	3	20	237

¹The “Merger” section relates basically to the tax effect of the part of the merger difference resulting from the merger of Unión Fenosa, S.A. into Gas Natural SDG, S.A. in 2009, allocated to net assets acquired, which is not expected to have tax effects, and the amount of the tax deduction applied to the part of the merger difference not allocated to net assets acquired.

²It includes the decrease due to the restatement of deferred tax liabilities under Law 27/2014.

In 2015, the demerger of Gas Natural SDG, S.A. has been completed in favour of Gas Natural Fenosa Generación, S.L.U. (*Note 5*), relating to the nuclear power generation business. Pursuant to Article 76.3 of Law 27/2014, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided by Title VII, Chapter VIII of that law. *Note 5* provides a breakdown of the carrying amount of the assets handed over, which matches the value recognised for the shareholding in the company Gas Natural Fenosa Generación, S.L.U.

In 2014, the demerger of Gas Natural SDG, S.A. was completed in favour of Gas Natural Fenosa Generación, S.L.U. (*Note 5*), relating to thermal and hydraulic power generation business. Pursuant to Article 83.3 of the Royal Decree-Law 4/2004, by which TRLIS is approved, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided by Title VII, Chapter VIII of the Corporate Income Tax Act (TRLIS). *Note 5* provides a breakdown of the carrying amount of the assets handed over, which matches the value recognised for the shareholding in the company Gas Natural Fenosa Generación, S.L.U.

In 2009, the companies Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were merged into Gas Natural SDG, S.A. under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, provided by Title VII, Chapter VIII TRLIS. The information requirements stipulated in the special tax scheme are fulfilled in the notes to Gas Natural SDG, S.A.'s 2009 annual accounts.

In October 2015, the tax inspection of Gas Natural SDG, S.A. and Gas Natural Distribución Latinoamérica, S.A. (formerly Gas Natural Internacional SDG, S.A.) for corporate income tax (2009 and 2010) and value added tax (2010) came to an end, no relevant matters having been identified and without any significant impacts on the income statement.

Gas Natural SDG, S.A.'s tax group is open to inspection for 2011 and subsequent periods and the taxes to which it is subject.

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. The Company considers, however, that any liabilities that might arise would not significantly affect these Annual accounts.

Gas Natural Fenosa has recorded provisions for obligations deriving from a number of tax claims. At 31 December 2015, the main tax litigation affecting the Group relates to the tax credit for export activities. As a result of the inspection proceedings on tax periods 2003 to 2008, the Inspectorate has questioned the admissibility of the tax credit for export activities applied by Gas Natural Fenosa; the tax assessments have been contested and appeals have been lodged at the Tax and Treasury Court and the National Court. At 31 December 2015, the assessments amount to Euros 93 million, including interest, and are fully provisioned (Note 15).

Note 21. Sales

Sales are mainly made in the domestic market and break down as follows:

	2015	2014
Electricity sales	1,696	1,542
Natural gas sales	1,938	2,110
Other sales	6	4
Income from equity instruments of Group companies and associates (<i>Note 9</i>)	1,542	1,120
Income from marketable securities and other financial instruments of Group companies and associates	458	347
Total	5,640	5,123

Electricity and gas sales are made basically in the domestic market.

Note 22. Procurements

This caption includes natural gas purchases under supply contracts in force and electricity purchases relating to the energy supply business. In 2014 it also included other raw materials and consumables used to generate electricity.

Note 23. Staff costs

The breakdown of this account in the income statement for 2015 and 2014 is as follows:

	2015	2014
Wages and salaries	143	164
Social security costs	22	23
Defined contribution plans	13	11
Defined benefit plans (<i>Note 15</i>)	2	2
Others	11	12
Total	191	212

The average number of employees of Gas Natural SDG, S.A. during 2015 has totalled 1,716 and 2,327 in 2014.

In accordance with Organic Law 3/2007 (22 March) for effective equality between women and men, published in the Official State Gazette on 23 March 2007, the number of Company employees by gender at year-end 2015 and 2014 is as follows:

2015	Men	Women	Total
Executives	316	156	472
Middle managers	101	82	183
Specialists	342	353	695
Workers	88	276	364
Total	847	867	1,714

2014	Men	Women	Total
Executives	338	143	481
Middle managers	121	81	202
Specialists	339	347	686
Workers	129	277	406
Total	927	848	1,775

Note 24. Other operating expenses

A breakdown income statement account for 2015 and 2014 is as follows:

	2015	2014
Taxes	2	78
Leases, royalties, operation and maintenance	88	129
Professional services and insurance	51	64
Advertising and other commercial services	27	27
Impairment losses and changes in trade provisions (<i>Note 12</i>)	8	4
Other	189	183
Total	365	485

Royal Decree-Law 9/2013 (July 2013) stipulated that the social bond costs would be borne by the parent companies of integrated production, distribution and supply groups (Note 2.2); the obligation came into force in 2014, following the approval of allocation percentages for the amounts to be financed, entailing an impact of Euros 29 million in the item "Other" (Euros 25 million in 2014).

Note 25. Other operating income

This account includes Euros 354 million in transactions with group companies and associates in 2015 (Euros 329 million in 2014).

Note 26. Net financial income

The breakdown of this account in the Income statement for 2015 and 2014 is as follows:

	2015	2014
Income from marketable securities and other financial instruments	29	46
Total financial income	29	46
Cost of borrowings	(663)	(589)
Interest expense on pensions (<i>Note 15</i>)	(6)	(10)
Other financial expense	(29)	(54)
Total financial expense	(698)	(653)
Change in fair value of financial instruments	2	2
Trading portfolio and other available-for-sale assets	2	2
Net exchange differences	(13)	2
Net financial income/(expense)	(680)	(603)

Note 27. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US dollar:

	2015	2014
Sales	894	919
Income from equity instruments of Group companies and associates	66	–
Income from marketable securities and other financial instruments of Group companies and associates	23	23
Purchases	(874)	(911)
Services received	(14)	(23)
Total	95	8

Note 28. Joint ventures

Gas Natural SDG, S.A. has no joint operations in 2015 (Note 5).

Gas Natural SDG, S.A. participated in different joint ventures that meet the conditions indicated in Note 6.17. The relevant shareholdings in joint ventures at 31 December 2014 were as follows:

	2014 (%)
Comunidad de bienes Central Nuclear Trillo (Grupo I)	34.5
Comunidad de bienes Central Nuclear Almaraz (Grupo I y II)	11.3
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3

The contribution of the shareholdings in joint operations in terms of the assets, liabilities, income and net income of Gas Natural SDG, S.A. is as follows:

	2014
Non-current assets	611
Current assets	67
Assets	678
Non-current liabilities	63
Current liabilities	81
Liabilities	144
Net assets	534
Income	197
Expenses	(210)
Net income after tax	(13)

There were no contingent liabilities relating to interests in joint operations in 2014. The information on contractual commitments contained in Note 31 for 2014 included commitments to purchase nuclear fuel in the amount of Euros 48 million.

Note 29. Information on transactions with related parties

The following are related parties for the purposes of this Note:

- Significant shareholders of Gas Natural SDG, S.A., shareholders that directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders who, without being significant, have exercised the power to put forward appointments of a member of the Board of Directors.

Under this definition, the significant shareholders of Gas Natural SDG, S.A. are Criteria Caixaholding, S.A.U., and, consequently, the Caixa d'Estalvis i Pensions de Barcelona group ("la Caixa" group) and the Repsol group.

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors and the term "executive" means a member of the Management Committee and the Internal Audit Director. The operations undertaken with directors and executives are set out in Note 30.
- Group companies or entities. Transactions effected between group companies form part of the ordinary course of business and they have been done at market conditions.

The aggregated amounts of operations with significant shareholders are as follows (in thousand Euros):

Income and expense (in thousand Euros)	2015		2014	
	"la Caixa" Group	Repsol Group	"la Caixa" Group	Repsol Group
Financial expense	2,565	–	711	–
Goods received	8,518	1	5,978	–
Purchase of goods (finished or in progress)	–	2,798	–	13,765
Other expenses ¹	14,389	–	9,747	–
Total expenses	25,472	2,799	16,436	13,765
Financial income	1,818	–	17,160	–
Services provided	–	5	–	41
Total income	1,818	5	17,160	41

Other transactions (in thousand Euros)	2015		2014	
	"la Caixa" Group	Repsol Group	"la Caixa" Group	Repsol Group
Financing agreements: loans and capital contributions (lender) ²	599,298	–	1,651,291	–
Financing agreements, credits and capital contributions(borrower) ³	200,000	–	200,000	–
Warranties and guarantees received	201,667	–	156,250	–
Dividends and other profit distributions	311,716	273,873	309,445	269,295
Other transactions ⁴	489,199	–	372,630	–

¹ Includes contributions to pension plans, group insurance policies, life insurance and other expenditure.

² Includes cash and cash equivalents.

³ At 31 December 2015, credit lines contracted with "la Caixa" group amount to Euros 569,000 thousand (Euros 562,421 thousand at 31 December 2014), from which there is no amount withdrawn. In addition, "la Caixa" Group has shares of other loans totalling Euros 200,000 thousand at 31 December 2015 and 2014.

⁴ At 31 December 2015, the item "Other transactions" with "la Caixa" Group includes the amount of Euros 207,996 thousand in respect of foreign exchange hedges (190,264 at 31 December 2014) and Euros 281,203 thousand in respect of interest rate hedges (Euros 182,365 thousand at 31 December 2014).

The aggregated amounts of operations with group companies and associates are as follows (in million Euros):

Expenses, income and other transactions	2015		2014	
	Group companies	Multi-group companies and associates	Group companies	Multi-group companies and associates
Financial expenses	(580)	–	(509)	–
Lease expenses	(60)	(6)	(52)	(7)
Services received	(25)	–	(25)	(27)
Purchases of goods	(2,560)	–	(1,402)	–
Total expenses	(3,225)	(6)	(1,988)	(34)
Financial income	458	–	345	2
Dividends received	1,528	14	1,098	24
Sale of goods	4,108	–	3,941	–
Other income	352	2	326	2
Total incomes	6,446	16	5,710	28
Sale of Property, plant and equipment, intangible and other assets	–	–	550	–
Other transactions	–	–	550	–

The item “Purchases” relates basically to electricity purchased from the other Group companies, since Gas Natural SDG, S.A. is their market representative.

Under the heading “Dividends received” are included the dividend payments from voluntary reserves, registered as a lower value on investments in group companies (Note 9).

Sales of natural gas and electricity are included under “Sale of goods”.

The item “Other income” includes income from services rendered in accordance with the nature and extent thereof.

The heading “Sales of Property, plant and equipment, intangible and other assets” includes issue premium distributions made by group companies (Note 9).

Costs shared between the Company and other group companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm’s length.

Note 30. Information regarding members of the Board of Directors and Management Committee

Remuneration of the members of the Board of Directors

In accordance with the By-laws and the General Meeting resolution of 14 May 2015, the Company may earmark a maximum of Euros 5 million for Board directors' remuneration each year.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee, Audit Committee (CA) and Appointments and Remuneration Committee (CN&R), totalled Euros 4,205 thousand (Euros 4,085 thousand in 2014), broken down in euros as follows:

	Office	Board	EC	CA&C	CN&R	Total
Mr. Salvador Gabarró Serra	Chairman	550,000	550,000	–	–	1,100,000
Mr. Antonio Brufau Niubó	Vice-Chairman	126,500	–	–	25,000	151,500
Mr. Rafael Villaseca Marco	CEO	126,500	126,500	–	–	253,000
Mr. Ramón Adell Ramón	Board Director	126,500	80,500	40,000	–	247,000
Mr. Enrique Alcántara-García Irazoqui	Board Director	126,500	126,500	–	–	253,000
Mr. Xabier Añoveros Trías de Bes	Board Director	126,500	–	–	–	126,500
Mr. Francisco Belil Creixell ¹	Board Director	80,500	–	25,455	–	105,955
Mr. Demetrio Carceller Arce	Board Director	126,500	126,500	–	–	253,000
Mr. Santiago Cobo Cobo ²	Board Director	46,000	–	–	9,091	55,091
Mr. Isidro Fainé Casas ¹	Board Director	80,500	–	–	–	80,500
Mr. Nemesio Fernández Cuesta Luca de Tena ²	Board Director	46,000	46,000	–	–	92,000
Mrs. Benita María Ferrero-Waldner ¹	Board Director	80,500	–	–	–	80,500
Mrs. Cristina Garmendia Mendizábal ¹	Board Director	80,500	–	–	15,909	96,409
Mr. Felipe González Márquez ²	Board Director	46,000	–	–	–	46,000
Mr. Emiliano López Achurra	Board Director	126,500	126,500	–	–	253,000
Mr. Carlos Losada Marrodán ²	Board Director	46,000	46,000	14,545	–	106,545
Mr. Miguel Martínez San Martín ¹	Board Director	80,500	80,500	–	–	161,000
Mr. Juan María Nin Génova ²	Board Director	46,000	46,000	–	–	92,000
Mr. Heribert Padrol Munté	Board Director	126,500	–	–	–	126,500
Mr. Juan Rosell Lastortras	Board Director	126,500	80,500	–	–	207,000
Mr. Luis Suárez de Lezo Mantilla	Board Director	126,500	–	40,000	–	166,500
Mr. Miguel Valls Maseda	Board Director	126,500	–	–	25,000	151,500
		2,574,000	1,435,500	120,000	75,000	4,204,500

¹ As from 14 May 2015.

² Until 14 May 2015.

In 2015, as in 2014, no additional remuneration items were received.

In 2015, the Chief Executive Officer received Euros 85 thousand (Euros 10 thousand in 2014) as a Board member of the investee company CGE. These amounts are deducted from the CEO's variable remuneration.

The amounts accrued to the Chief Executive Officer for executive functions in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 1,142 thousand, Euros 1,054 thousand, Euros 883 thousand and Euros 8 thousand, respectively, during 2015 (Euros 1,063 thousand, Euros 1,141 thousand, Euros 902 thousand and Euros 5 thousand, respectively, in 2014).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 315 thousand in 2015 (Euros 308 thousand in 2014). Funds accumulated due to these contributions amount to Euros 2,930 thousand at 31 December 2015 (Euros 2,636 thousand at 31 December 2014).

The members of the Board of Directors of Gas Natural SDG, S.A. have not received any remuneration in profit sharing or premiums and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised any options or hold any options pending execution.

The Board members are covered by the same third-party liability policy as all the administrators and executives of Gas Natural Fenosa.

The contract with the Chief Executive Officer contains a clause that establishes a severance indemnity that trebles his annual compensation in the event of certain cases of termination of the labour relationship and an indemnity of one year's remuneration in consideration for the one-year post-contractual non-compete clause.

Operations with Directors

The Board directors have the duty to avoid conflicts of interest, as stipulated Gas Natural SDG, S.A.'s Board Regulations and in Articles 228 and 229 of the Spanish Companies Act 2010. Additionally, these articles also stipulate that conflicts of interest affecting the Board directors must be reported in the annual accounts.

Gas Natural SDG, S.A.'s Board directors have not communicated any conflict of interest that must be reported.

With respect to transactions with related parties (significant shareholders) that have been submitted to the Board for approval, subject to a favourable report from the Appointments and Remuneration Committee or from the Audit Committee, the Board directors representing the related party involved have abstained.

The Board directors did not complete any transactions outside the ordinary course of business or on other terms than arm's length terms with the Company or with Group companies during 2015 and 2014.

Remuneration of Management Committee

For the purposes of the information contained in this section only, "executives" are the members of the Management Committee, excluding the Chief Executive Officer, whose remuneration has been included in the previous section, and the Internal Audit Director.

The amounts received by the executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items, totalled Euros 4,962 thousand, Euros 2,528 thousand, Euros 1,982 thousand and Euros 112 thousand, respectively in 2015 (Euros 4,459 thousand, Euros 2,776 thousand, Euros 2,083 thousand and Euros 121 thousand in 2014).

The share purchase plan referred to in Note 6.10 d) ended in 2014 and no amounts have been therefore received in the form of Company shares in 2015 (Euros 120 thousand in 2014).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 2,428 thousand in 2015 (Euros 2,176 thousand in 2014). Funds accumulated due to these contributions amount to Euros 24,955 thousand at 31 December 2015 (Euros 22,818 thousand at 31 December 2014).

The executives have received no remuneration in respect of profit sharing or bonuses and no loans have been granted to them. No advances have been granted to executives at 31 December 2015 (Euros 100 thousand at 31 December 2014). No indemnities were received during 2015 or 2014.

The contracts of the executives contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment non-compete clause for a period of two years.

Note 31. Contingent liabilities and commitments

Guarantees

At 31 December 2015 Gas Natural SDG, S.A. has been given guarantees before third parties relating to their activities totalling Euros 260 million (Euros 263 million at 31 December 2014).

On the other hand, financial guarantees have also been given totalling Euros 150 million (Euros 244 million at 31 December 2014), Euros 132 million of which secure compliance with the obligations relating to the loans received by investee companies (Euros 229 million at 31 December 2014).

Gas Natural SDG, S.A. estimates that the unforeseeable liabilities at 31 December 2015, if any, that could arise from the guarantees given would not be significant.

Contractual commitments

At 31 December 2015, the Company is party to several gas supply contracts with "take or pay" clauses negotiated for "own use" (Note 6.5), by virtue of which it has gas purchase rights for the period 2016-2040 in the amount of Euros 11,044 million, calculated on the basis of natural gas prices at 31 December 2015.

Operating lease obligations breakdown as follows:

Period	2015		2014	
	Operating leases		Operating leases	Purchases of nuclear fuel
Up to one year	6		6	23
Between 1 and 5 years	14		2	25
	20		8	48

Operating lease commitments refer basically to the rental of the “Torre del Gas” building owned by Torre Marenostrom, S.L., for which Gas Natural SDG, S.A. has an operating lease without a purchase option for a 10-year term as from March 2006, renewable at market value for successive three-year periods at the discretion of Gas Natural SDG, S.A. but on a mandatory basis for Torre Marenostrom, S.L.

Contingent liabilities

Gas Natural SDG, S.A. reports no relevant contingent liabilities relating to litigation or arbitration at the date of these Annual accounts.

Note 32. Auditors' fees

The fees accrued in thousand Euros by the different companies using the PwC mark are:

(rhousand euros)	2015	2014
Auditing services	658	514
Verification services and related to the audit	402	822
Total fees	1,060	1,336

Note 33. Environment

Environmental actions

Gas Natural Fenosa's main activities related to the company's environmental strategy so as to assure compliance with environmental legislation, reduce environmental impacts, mitigate climate change, preserve biodiversity, optimise consumption of natural resources such as water, prevent pollution and promote continuous improvement, going beyond the stipulations of applicable laws.

Measures continued to make energy development compatible with environmental protection. General activities included the promotion of continuous improvement by updating and extending environmental management, involving our suppliers and encouraging our customers to use energy responsibly.

This is achieved through environmental management of Gas Natural Fenosa based on the ISO 14001 model, the correct functioning of which is verified periodically, providing the tools required to assure environmental management. In 2015, certification was obtained for the environmental management system applied to gas distribution in Argentina. Along similar lines, the process commenced to adapt environmental management of the Chilean activities to ensure consistency with the rest of the company. For this reason, the certified industrial EBITDA percentage fell in 2015 and will continue to decrease in the coming years.

Gas Natural Fenosa's positioning in relation to climate change is based on its contribution to climate change mitigation by using low-carbon and renewable energies, promoting energy saving and efficiency, applying new technologies and capturing carbon in the Group's projects. In 2015 direct CO₂ emissions have risen significantly in relation to 2014. This is explained by the increase in coal thermal generation in Spain and the contribution from the Chilean gas distribution activities. In the interests of system and market stability, Spain's thermal generation filled the gap left by the reduction in renewable production in a year in which there was less precipitation and wind. This has caused a substantial rise in specific emissions per unit of electricity generated with respect to 2014, although it has been partly absorbed by the increase in renewable generation worldwide.

In 2015, Gas Natural Fenosa undertook numerous actions to promote the conservation of biodiversity, some in response to requirements implemented by environmental authorities and others voluntarily. During this period, the initial steps have been taken to implement biodiversity action plans and highly significant progress has been made in the creation of tools to support the company's biodiversity strategy.

Gas Natural Fenosa is aware of the essential role played by water in the production process; as part of its ongoing commitment to the environment and to the efficient management of natural resources, in 2015 its water strategy was consolidated by determining management indicators and lines of action to optimise water use in the most significant production processes.

The environmental activities undertaken in 2015 amounted to Euros 12 million, relating to the costs of environmental management at facilities (Euros 35 million in 2014, of which Euros 3 million related to investments and Euros 32 million related to environmental management at facilities).

Possible contingencies, indemnities and other environmental-related risks in which Gas Natural Fenosa could be incur are adequately covered by subscribed liability insurance policies.

Note 34. Balance sheet and Income statement segregated by activities

As a result of the demerger of the nuclear power generation business with retroactive effects to 1 January 2015 (Note 5), the segment Balance sheet and Income statement are not presented for 2015.

For 2014, the Balance sheet and Income statement are presented showing the Company's activities:

- a) Electricity generation: includes electricity generation using nuclear power plants.
- b) Other activities: Basically includes the activity as parent company of the Gas Natural Fenosa group, provisions of services to the group companies and purchase-sale of gas under contracts for supplies to other group companies.

The criteria used for segregating by activities are:

- > The assets, liabilities, revenue and expenses which directly correspond to each activity are allocated to such activity.
- > Indirect assets, liabilities, revenue and expenses have been allocated to each activity on the basis of distribution criteria and taking into account their effective use.
- > Financial debt and shareholders' equity are allocated on the basis of the financial needs of each activity. Financial revenue and expenses are allocated as previously allocated.

As a result of the definition of activities and in accordance with the criteria used, the Balance sheet and Income statement segregated at 31 December 2014 are as follows:

Segregated Balance Sheet (at 31/12/2014)

(million euros)	Electricity generation	Other activities	Total
Non-current assets	1,136	28,935	30,071
Intangible assets	247	815	1,062
Property, plant and equipment	876	173	1,049
Long-term investments in group companies and associates	–	27,779	27,779
Long-term investments	2	13	15
Deferred income tax assets	11	155	166
Current Assets	96	4,665	4,761
Inventories	64	–	64
Trade and other receivables	32	712	744
Short-term investments in group companies and associates	–	1,082	1,082
Short-term investments	–	62	62
Short term prepayments and accrued expense	–	3	3
Cash and cash equivalents	–	2,806	2,806
Total assets	1,232	33,600	34,832
Net equity	365	13,264	13,629
Shareholders' net equity	362	13,278	13,640
Adjustments for changes in value	–	(14)	(14)
Grants, donations and bequests received	3	–	3
Non-current liabilities	790	15,962	16,752
Long-term provisions	156	461	617
Long-term borrowings	–	3,903	3,903
Amounts owing to group companies and associates falling due in more than one year	543	11,351	11,894
Deferred income tax liabilities	91	246	337
Long-term accruals and deferred income	–	1	1
Current liabilities	77	4,374	4,451
Short-term borrowings	–	618	618
Amounts owing to group companies and associates falling due in less than one year	–	2,716	2,716
Trade and other payables	77	1,040	1,117
Total net and liabilities	1,232	33,600	34,832

Segregated Income Statement (2014)

(million euros)	Electricity generation	Other activities	Total
Net turnover	189	4,934	5,123
Supplies	(34)	(3,332)	(3,366)
Other operating income	16	389	405
Personnel costs	(14)	(198)	(212)
Other operating expenses	(153)	(332)	(485)
Depreciation/amortisation	(76)	(11)	(87)
Impairment and results on disposals of financial instruments	–	(568)	(568)
Operating profit	(72)	882	810
Financial income	–	46	46
Financial expenses	(19)	(634)	(653)
Variation in fair value of financial instruments	–	2	2
Net exchange gains / losses	–	2	2
Net financial income	(19)	(584)	(603)
Profit before tax	(91)	298	207
Income tax	44	832	876
Profit for the year	(47)	1,130	1,083

Note 35. Subsequent events

There have been no additional relevant events from the year end to the issuance date that could significantly affect these Annual accounts.

Appendix I. Companies in the gas natural tax group
The companies in the Gas Natural Tax group are as follows:

Gas Natural SDG, S.A.	Gas Natural Fenosa Renovables, S.L.U.
Boreas Eólica 2, S.A.	Gas Natural Informática, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Infraestructuras Distribución Gas SDG, S.A.
Energías Ambientales de Somozas, S.A.	Gas Natural Madrid SDG, S.A.
Energías Especiales Alcohólicas, S.A.	Gas Natural Rioja, S.A.
Energías Especiales de Extremadura, S.L.	Gas Natural S.U.R. SDG, S.A.
Europe Maghreb Pipeline Limited	Gas Natural Servicios SDG, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	Gas Natural Transporte SDG, S.L.
Fenosa Wind, S.L.	Gas Natural Wind 4, S.L.U.
Fenosa, S.L.U.	Gas Navarra, S.A.
Gas Natural Aragón, S.A.	General de Edificios y Solares, S.L.
Gas Natural Almacenamiento Andalucía, S.A.	Global Power Generation, S.A.U.
Gas Natural Andalucía, S.A.	Hispanogalaica de Extracciones, S.L.
Gas Natural Aprovisionamientos SDG, S.A.	Holding Negocios Regulados Gas Natural, S.A.
Gas Natural Balears, S.A.	JGC Cogeneración Daimiel, S.L.
Gas Natural Capital Markets, S.A.	La Energía, S.A.
Gas Natural Castilla y León, S.A.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Castilla-La Mancha, S.A.	La Propagadora del Gas, S.A.
Gas Natural Cegas, S.A.	Lignitos de Meirama, S.A.
Gas Natural Comercializadora, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Distribución SDG, S.A.	Petroleum, Oil & Gas España, S.A.
Gas Natural Distribución Latinoamérica, S.A.	Sagane, S.A.
Gas Natural Exploración, S.L.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Fenosa Electricidad Colombia, S.L.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Fenosa Engineering, S.L.U.	Tratamiento Almazán, S.L.
Gas Natural Fenosa Generación Nuclear, S.L.	Tratamientos Cinca Medio, S.L.
Gas Natural Fenosa Generación, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Internacional, S.A.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa LNG, S.L.	Unión Fenosa Preferentes, S.A.U.



Multi-channel services

Our customers decide how they wish to communicate with us: social networks, online, by telephone, by email or at customer service centres.

The important thing for Gas Natural Fenosa is to make our customers' lives easier. To this end, we provide them with multiple channels through which they can manage their accounts, obtain information or contract new services.

Done and said





Gas Natural SDG 2015 Annual Report

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1. Company's situation

1.1. Business model

Gas Natural Fenosa's business model is characterised by responsible and sustainable management of all resources. Our commitment to sustainability and value creation over time is reflected specifically in our corporate responsibility policy, approved by the Board of Directors and implemented across all the Company's business processes; it comprises seven corporate responsibility commitments to stakeholders, which guide our activities: commitment to results, customer orientation, environmental protection, concern for people, health and safety, commitment to society and integrity.

Gas Natural Fenosa is an integrated energy company that supplies gas and electricity to over 23 million customers. Its main purpose is to supply energy to society so as to maximise development and welfare, using innovation, energy efficiency and sustainability as the fundamental pillars of the business model. It is the energy sector leader and a pioneer in the integration of gas and electricity. The business focuses on the full gas life cycle and on electricity generation, distribution and retailing. There are other business lines, such as energy services, that favour diversification of activities and revenues, anticipating new market trends, meeting specific customer needs and providing an integrated service not focused only on energy selling.

Gas Natural Fenosa's business model is developed through a large number of companies, basically in Spain, the rest of Europe, Latin America and Africa; there are five major business areas:

> **Gas distribution Europe (Spain, rest of Europe and Latin America)**

Gas Natural Fenosa has a leading position in the markets in which it operates, allowing organic growth opportunities to be leveraged both by winning new customers in municipalities to which gas is supplied and by expanding networks into zones without a gas supply. It is the leader in Spain and has a solid presence in Italy. It is also the leader in Latin America, with a presence in Mexico, Colombia, Brazil, Argentina and Peru.

> **Electricity distribution (Spain, rest of Europe and Latin America)**

Gas Natural Fenosa is one of the most efficient operators in terms of operating and maintenance costs in electricity distribution. It is the third-ranked operator in the Spanish market and the leader in Moldova. In Latin America it is present in Panama and Colombia, where it is regarded as one of the main operators in the region.

> **Gas (Infrastructures, Supplier and Commercialisation, and Unión Fenosa Gas)**

Gas Natural Fenosa has a unique, integrated gas infrastructure that provides considerable business stability, operational flexibility and the capacity to transport gas towards the best business opportunities.

For Gas Natural Fenosa, our suppliers play a critical role in the optimal functioning of the value chain; accordingly, long-term contracts are concluded, a commitment to society is assumed and environmental impacts are minimised so as to guarantee supply.

Gas Natural Fenosa responds with value added services to customers' demands for speed, guarantees, quality and energy efficiency.

> **Electricity (Spain and International)**

Gas Natural Fenosa has broad knowledge of all generation technologies and an infrastructure that can be tailored to the needs of any energy model and each country's circumstances. A competitive, flexible gas supply allows the Company to achieve better margins than its competitors when managing combined cycle plants.

Our leading position in the combined retailing of natural gas and electricity brings major advantages, such as a lower service cost, integrated customer service and lower acquisition costs, without forgetting greater proximity to customers.

In the international market Gas Natural Fenosa, through Global Power Generation, is established in Mexico, Puerto Rico, Dominican Republic, Costa Rica, Panama, Kenya and Australia.

➤ **Compañía General de Electricidad (CGE)**

Gas Natural Fenosa, through the Chilean group CGE, acquired in November 2014, is the leading operator in electricity distribution and transmission, and in natural gas and LPG distribution, in Chile. In December 2015 the liquefied petroleum gas activity in Chile was classified as a discontinued operation.

Our operations throughout the gas value chain provide Gas Natural Fenosa with a competitive advantage and a leading position in the sector. Our electricity management capacity and experience, combined with a unique integrated position in the gas and electricity markets, make the company a benchmark in this sector. International presence guarantees a privileged position to achieve growth in new regions that are in the process of economic development, making the Company one of the world's leading operators.

Appendix I to the Consolidated Annual Accounts contains a list of Gas Natural Fenosa's investees.

1.2. Corporate governance

Gas Natural Fenosa develops and continuously updates its corporate governance rules, which are formed by:

- Company By-laws.
- General Shareholders' Meeting Regulations.
- Board of Administration and Board Committee Regulations.
- Internal Code of Conduct with regard to the Stock Markets.
- Code of Ethics.
- Corporate Responsibility Policy.

Gas Natural Fenosa has continued to enhance its commitment to transparency and good practices, involving the General Shareholders' Meeting, Board of Directors and Board committees: Executive Committee, Appointments and Remuneration Committee, and Audit Committee. The Management Committee also plays a relevant role. In 2015, Gas Natural Fenosa adapted its corporate governance rules to the requirements of Law 31/2014, 3 December, which amended the Spanish Companies Act 2010 to improve corporate governance and the new the recommendations of the corporate governance code for listed companies of February 2015.

The 2015 Annual Corporate Governance Report contains a more detailed description.

The Board of Directors represents the Company and is Gas Natural Fenosa's ultimate decision-taking body, barring decisions reserved for the General Meeting. In particular, the Board is responsible for the following matters:

- Determining strategic orientation and economic objectives.
- Supervising and verifying that the top executives observe the strategies and objectives.
- Assuring the company's future viability and competitiveness.
- Approving codes of conduct.

The Executive Committee is the Board committee responsible for continuous monitoring of Company management.

The Appointments and Remuneration Committee proposes Board direct remuneration criteria and general management remuneration policies. It also reviews the Board's structure and composition, supervising the inclusion of new members and establishing guidelines for the appointment of directors.

The Audit Committee supervises systems and the effectiveness of internal controls and of risk management systems, preparation of financial information and internal audit services.

The Management Committee coordinates business and corporate areas. Its main functions include studying and proposing Objectives, the Strategic Plan and the Annual Budget, as well as assessing, for the main Governing Bodies, action proposals that could affect the fulfilment of the Company's Strategic Plan. All the Management Committee members participate in the preparation of the Corporate Risk Map through work meetings in which they express opinions on the main uncertainties and potential impacts on the businesses.

2. Business evolution and results

The main financial aggregates of Gas Natural SDG, S.A. and their performance are as follows:

	2015	2014	%
Net turnover	5.640	5.123	10,1
Operating profit	1.678	810	107,2
Profit for the year	1.103	1.083	1,8
Shareholders' equity	13.828	13.640	1,4
Net equity	13.815	13.629	1,4
Current liabilities	3.780	4.521	(16,4)
Average period for payment to suppliers	24 days	24 days	-

Gas Natural SDG, S.A., after the demerger of the nuclear business taking place during the exercise, (see Note 5 Annual accounts), is a company that develops its activity basically through the tendency of other group and associated companies shares, so information below refers to de Consolidated group of Gas Natural Fenosa.

2.1. Main milestones in 2015

Consolidated net profit in 2015 amounted to Euros 1,502 million, a 2.7% increase, and achieved the target set in the strategic plan 2013-2015.

Consolidated EBITDA amounted to Euros 5,264 million, having risen 8.6% on 2014.

Chilean company Compañía General de Electricidad (CGE), which was consolidated by Gas Natural Fenosa as from 30 November 2014, contributed Euros 499 million in consolidated EBITDA in 2015 (Euros 28 million in 2014), offsetting both the Euros 59 million impact on EBITDA, with respect to last year, of regulatory measures under Royal Decree Law 8/2014, which affected regulated gas activities in Spain, effective since 5 July 2014, and the Euros 32mn contribution from the telecommunications business, which was divested in June 2014.

On 18 December 2015, Gas Natural Fenosa, which, through CGE, owns a 56.62% controlling stake in Chilean company Gasco, signed an agreement with the Pérez Cruz family to demerge Gasco into two companies, one focused on the natural gas business, to remain under the control of Gas Natural Fenosa, and the other focused on the liquefied petroleum gas business, of which Pérez Cruz would acquire control. Once the split has been completed, each of the parties will make a tender offer to acquire control or increase its stake in its company to 100% in order to pursue their respective businesses independently. Both parties undertake to accept the tender offer made by the other.

As of 31 December 2015, the indebtedness ratio was 45.8%, compared with 48.5% a year earlier, and the net financial debt/EBITDA ratio was 3.0, fulfilling the goal of the strategic plan 2013-2015.

The Board of Directors will propose to the Ordinary Shareholders' Meeting that it allocate Euros 933 million out of 2015 income to dividends, i.e. 2.7% more than the previous year, in line with the increase in net profit, maintaining a payout of 62.1%. The supplementary dividend of Euros 0.525 per share will be paid in cash.

2.2. Main aggregates

Financial main aggregates

	2015	2014	%
Net sales	26,015	24,697	5.3
Ebitda ^{1 and 2}	5,264	4,845	8.6
Operating income	3,261	3,185	2.4
Net income attributable to equity holders of the Company	1,502	1,462	2.7
Cash flows from operating activities	3,500	2,808	24.6
Investments	2,082	4,342	(52.0)
Net equity	18,518	18,020	2.8
Attributed net equity	14,367	14,141	1.6
Net borrowings (at 31/12)	15,648	16,942	(7.6)

¹ Ebitda = Operating income + Depreciation, Amortisation and Impairment + Operating provisions - Other results.

² Pro-forma estimated ebitda for 2014, on the basis that if the acquisition of CGE had been effective from 1 January 2014, would amount to Euros 5,359 million.

Main financial ratios

	2015	2014
Leverage (%) ¹	45.8	48.5
Ebitda/Net financial income	5.9x	6.1x
Net borrowings/ Ebitda ²	3.0x	3.5x
Liquidity ratio ³	1.2x	1.3x
Solvency ratio ⁴	1.0x	1.1x
Return on equity (%) ⁵	10.5	10.3
Return on assets (%) ⁶	3.1	2.9

¹ Net borrowings/(Net borrowings+Net Equity).

² The pro-forma estimated ratio for 2014, on the basis that if the acquisition of CGE had been effective from 1 January 2014, would be 3.2x.

³ Current assets/Current liabilities.

⁴ (Net equity + Non-current liabilities)/Non-current assets.

⁵ ROE: Net income attributable/Attributed net equity.

⁶ ROA: Net income attributable/Total assets.

Main stock market ratios and shareholder remuneration

	2015	2014
Average number of shares (thousand)	1,000,689	1,000,689
Share price at 31/12 (euro)	18.82	20.81
Stock market capitalisation (million euro)	18,828	20,824
Earnings per share (euro)	1.57	1.46
Attributable equity per share (euro)	14.36	14.13
Price-earnings ratio (PER)	12.5x	14.2x
EV/ Ebitda ^{1 and 2}	6.5x	7.8x
Pay-out (%)	62.1	62.1
Total dividend ³ (million euro)	933	909
Dividend per share	0.93	0.91

¹ EV: Enterprise value calculated as stock market capitalisation + net borrowings.

² The pro-forma estimated ratio for 2014, on the basis that if the acquisition of CGE had been effective from 1 January 2014, would be 7.0x.

³ Considering the equivalent total amount distributed as dividends. In 2015, this includes a supplementary dividend of Euros 525 million pending approval by the General Meeting.

Main physical aggregates

	2015	2014	%
Gas distribution			
Sales-TPA ¹			
Europe	181,212	175,223	3.4
Latin America	248,536	249,067	(0.2)
Gas distribution connections points (thousand) (at 31/12)			
Europe	5,724	5,683	0.7
Latin America	6,886	6,593	4.4
Electricity distribution			
Sales-TPA ¹			
Europe	34,676	34,262	1.2
Latin America	18,200	17,150	6.1
Electricity distribution connections points (thousand) (at 31/12)			
Europe	4,550	4,529	0.5
Latin America	3,144	3,032	3.7
ICEIT ² (minutes)	44	48	(8.3)
Gas			
Gas supply (MW)			
Spain	185,851	190,069	(2.2)
Rest	130,417	120,560	8.2
Gas transportation - EMPL (MW)	112,861	120,558	(6.4)

¹ Third-party network access (energy distributed).

² Installed capacity equivalent interruption time in Spain.

Main physical aggregates (continuation)

	2015	2014	%
Electricity			
Electricity generated (MW)	49,548	48,282	2.6
Spain	31,568	30,542	3.4
Hydroelectric	2,457	4,275	(42.5)
Nuclear	4,544	4,425	2.7
Coal	7,973	5,622	41.8
Combined Cycles	14,494	14,143	2.5
Renewables and Cogeneration	2,100	2,077	1.1
Global Power Generation	17,980	17,740	1.4
Hydroelectric	481	233	106.4
Combined Cycles	15,519	15,898	(2.4)
Oil-gas	1,130	1,356	(16.6)
Wind	850	253	236.0
Electricity Generation capacity (MW)	15,471	14,785	4.6
Spain	12,769	12,122	5.3
Hydroelectric	1,954	1,948	0.3
Nuclear	604	604	–
Coal	2,065	2,065	–
Combined Cycles	7,001	6,603	6.0
Renewables and Cogeneration	1,145	902	26.9
Global Power Generation	2,702	2,663	1.5
Hydroelectric	123	73	68.5
Combined Cycles	2,035	2,035	–
Oil-gas	310	321	(3.4)
Wind	234	234	–
Electricity Sales (GWh)	35,241	34,718	1.5
CGE¹			
Gas distribution			
Gas business sales (GWh)	44,083	3,172	–
Gas distribution supply points (thousand) (at 31/12)	562	540	4.1
Electricity distribution			
Electricity sales (GWh)	15,856	1,397	–
Electricity distribution supply points (thousand) (at 31/12)	2,928	2,854	2.6
Electricity transported (GWh)	14,497	2,938	–

¹ Data for CGE from 2014 relate to figures from the date of inclusion in the Group in November 2014. Does not include physical quantities relating to the discontinued operations (Notes 3.3 and 9 to the consolidated accounts).

3. Sustainability

3.1 Environment

Main aggregates

	2015	2014	% Var.
Emission-free installed capacity (%)	21.8	20.7	5.3
Emission-free net production (%)	12.0	14.0	(14.3)
GHG emissions ¹ (t CO ₂ eq.)	22.4	19.8	13.1
GHG emissions/electricity generation (t CO ₂ eq./GWh)	445	406	9.6
Methane emissions in gas distribution (t CO ₂ eq./km network)	10.1	9.9	2.0
Environmentally certified activities (% of ebitda environmentally certified) ²	88.3	100.0	(11.7)

¹ Greenhouse gases. Scope 1 Direct emissions as per *The Greenhouse Gas Protocol. A Corporate accounting and reporting standard.*

² Environmentally certified ebitda as a % of the Group's total EBITDA is approximately 78,6%.

The environmental principles of Gas Natural Fenosa are aimed at ensuring compliance with environmental legislation, reducing environmental impact, mitigating climate change, optimize the consumption of natural resources such as water, preserving biodiversity in the environment, preventing pollution and fostering continuous improvement, going beyond legislation.

In 2015, despite progress in the certification of new environmental management systems according to ISO 14001 and internal requirements, there has been a decrease in the percentage of certified EBITDA as a result of the incorporation of new activities in Chile where work is under way to adapt them to international benchmarks and internal requirements for environmental management.

With respect to climate change, progress has continued on various projects aimed at determining our carbon footprint and identifying of risks and opportunities arising from climate change. Regarding emission values, there has been an increase in direct CO₂ emissions compared with 2014 due to higher production from thermal coal generation in Spain and the contribution of distribution activities in Chile. For reasons of system and market stability, Spanish thermal generation filled the gap left by lower renewable energy output due to lower winds and rainfall during the year. This has led to a substantial increase in the specific emission per energy unit generated with respect to 2014, but has been partially mitigated by the increase in renewable energy generation on an international scale.

In 2015 Gas Natural Fenosa has carried out numerous and varied activities in favour of conserving biodiversity, many of which have gone beyond the requirements set by the environmental authorities and others of a voluntary character.

Recognizing the central role that water plays in the production process, as part of our ongoing commitment towards the environment and the efficient management of natural resources, in 2015 Gas Natural Fenosa consolidated its water strategy by determining management indicators and courses of action related to the optimisation of water resources in its most significant production processes.

Note 36 to the annual accounts contains other relevant information on the main environmental and sustainability activities, emissions and environmental investments.

3.2 People

Main aggregates

Employment indicators	2015	2014	% Var.
Number of employees at 31/12	19,939	21,961	(9.2)
Voluntary turnover rate (%)	3.5	3.3	6.1
Integration rate (disabled persons) ¹	2.4	2.3	4.3
Employee training hours	61.4	57.4	7.0
Absenteeism	2.0	1.86	7.5
Days' work lost	3,674	3,035	21.1
Number of accidents causing sick leave	125	118	5.9

¹ Spain.

Human and social development

Gas Natural Fenosa provides stable and quality employment (96% of posts are indefinite) and a solid, structured and appealing professional career.

During 2015 the implementation of the Human and Social Development project continued, the main objective of which is to promote a quality work environment based on respect, diversity and personal and professional development. Through this project, a number of programmes have been promoted and coordinated on the basis of two essential pillars: equality of opportunities and training as a level to raise internal awareness on disability.

Gas Natural Fenosa has a unique global model for external selection and internal mobility in all the geographies in which it operates, thereby guaranteeing a unique employer image and best practices in identifying, attracting and retaining the professional talent necessary to carry on our businesses.

Gas Natural Fenosa continues to offer all employees the opportunity to participate in the internal mobility programme. Through this programme employees can apply for any vacant position in any location, irrespective of where the employee's work place is located. This is one of the main pillars of increasing the dynamism of the professional development of the company's employees. In 2015 the "Conocerte" scheme was launched with the aim of ascertaining employees' geographical and functional mobility expectations and helping them to improve their professional development by means of a global survey on the professional interests of all employees.

Ethical behaviour, promoting and respecting equality, prevention and safety in the workplace are an essential part of the commitment assumed by Gas Natural Fenosa with its employees.

These principles are reflected in the company's daily management through the Code of Ethics, the I Collective Agreement, the Equality Plan and the Protocol for the Prevention of Harassment in the Workplace and Sexual Harassment.

In 2015, progress has been made on the implementation of equality and diversity actions for employees, with the design of a Comprehensive Diversity Plan focused on gender, age and disability.

Concerning disability, the Capacitas and Aflora programmes aimed at normalising the professional integration of disabled employees should be noted. Since we began implementing these two projects, a total of 105 persons with special needs have enjoyed aid relating to employment. Gas Natural Fenosa renewed the Bequal Plus Seal in recognition of our inclusion policy as a pioneer in disability commitment within the energy industry.

Gas Natural Fenosa promotes the reconciliation of employees' professional and private lives through a significant set of labour flexibility measures, services and benefits adapted to employees' needs. Our professionals can thus design their own life options in line with their development plans and the company's interests.

Training and talent management

Talent Management at Gas Natural Fenosa's is centred on employees' individual development and professional careers, helping to define professional learning in a controlled and consistent manner to ensure that their development is aligned with the company's objectives.

To work consistently and transversally, in 2015 the process of identifying talent has been strengthened, validated technically by designing a set of indicators to improve management. The talent assessment and segmentation process measures aspects such as target behaviour, the results obtained, skills, learning and interest in progressing. It also incorporates specific opportunities such as mobility or assigning projects or training for professionals based on their profile and potential.

The Talent Management and Corporate University unit is responsible for the development of Gas Natural Fenosa's professionals on all organisational levels and for knowledge management in all areas of the company. Training is a success factor for the company since our employees are the ones who achieve business objectives and drive our corporate strategies.

Corporate University has a network of alliances with academic institutions both in Spain and in the rest of the world. There is also an Advisory Council made up of Polytechnic Universities of Barcelona and Madrid, the Monterrey Institute of Technology, IESE, ESADE and the Boston Consulting Group. Together with the internal units of Gas Natural Fenosa, they ensure a permanent link between the company's strategy and the programmes that are implemented.

Gas Natural Fenosa has established itself as a leader in health and safety following the implementation of an ambitious plan aiming at achieving a profound cultural change, which began in 2012, called the "Health and Safety Commitment Plan". The Corporate University has contributed to this process through the "Health and Safety Commitment" Programme training scheme, involving all the company's employees.

Remuneration

Gas Natural Fenosa's remuneration policy is governed by internal equality and by market competitiveness. Employee's remuneration depends on their inclusion in the Collective Agreement.

The salary levels of employees covered by the Collective Agreement are based on the professional group and sub-group to which they belong.

For those not covered salaries are defined individually, in line with the Company's remuneration policy.

Variable remuneration under Gas Natural Fenosa's remuneration policy is designed to promote employee commitment and motivate performance, in line with the long-term interests of the Company and its shareholders.

Annual variable remuneration rewards the achievement of individual targets depending on the post occupied, related to economic-financial, efficiency and growth variables, as well as on quality and security issues, directly related to the fulfilment of the objectives proposed in the Management Objective Plan.

Management by Objectives and Commercial Variable Remuneration are methodologies deployed in Gas Natural Fenosa to encourage employee involvement in achieving the objectives of the company and their direct participation in results. Both are arranged through two types of Annual Variable Remuneration, depending on the group addressed:

- > Management: based on management by objectives and performance appraisal. Applies to management personnel not covered by the Collective Agreement.
- > Commercial: based on the fulfilment of commercial objectives. Aimed at employees fulfilling commercial functions within the group.

The compensation package for employees of Gas Natural Fenosa is complemented by a social welfare system which includes the Pension Plan, the main vehicle for funding post-employment commitments.

Furthermore, Gas Natural Fenosa offers a range of social benefits that complement the employees' remuneration package. The Flexible Remuneration System, which has become consolidated within the company after its launch in 2012 for managerial and technical personnel excluded from the scope of regulation of the Collective Agreement in Spain, allows beneficiaries to voluntarily design the composition of their compensation packages.

During the 2015 Flexible Remuneration campaign, requests received were 12% up on 2014. This percentage reflects the success of this remuneration system.

In 2015, in keeping with the objective set in 2014, the Flexible Remuneration System has been extended to Company personnel. This means that employees covered by the Collective Agreement in Spain, who were previously excluded, can now access the products offered through the System.

Personnel structure

Note 25 to the Consolidated Annual Accounts provides a breakdown of personnel by category, gender and geographic area at 31 December.

3.3 Taxation

Tax policies and tax risk management

Fiscal policies of Gas Natural Fenosa are aligned with the Corporate Responsibility Policy of Gas Natural Fenosa which establishes as one of the commitments and principles of action to "act responsibly in managing business and comply with tax obligations in all the jurisdictions in which the company operates, assuming the commitment to transparency and collaboration with the relevant tax authorities."

To this end, since 2010 Gas Natural Fenosa has adhered to the "Code of Best Tax Practices" drawn up by the Large Companies Forum together with the Spanish tax authorities. This initiative, supported by the Spanish government, aims to promote transparency, good faith and cooperation with the Tax Administration State Agency in business tax practices and legal security in the application and interpretation of tax regulations.

In this respect, the company has expressly undertaken to: (a) avoid opaque structures for tax purposes, (b) collaborate with the tax authorities, (c) regularly report tax policies applied to the Board of Directors, and (d) apply tax criteria in line with administrative doctrine and jurisprudence.

To ensure that the tax practices of Gas Natural Fenosa are based on these principles, the group has a General Best Tax Practice Procedure.

In addition, Gas Natural Fenosa has a risk map specifically identifying tax risks and controversies concerning the interpretation and application of the tax legislation framework. Information on the main tax-related actions is disclosed in Note 21 (Tax Situation) to the consolidated annual accounts.

The tax repercussions of any significant or singular operations are reported to the Board of Directors when this is deemed to be a relevant factor. The creation or acquisition of holdings in entities domiciled in tax havens must be reported to the Board of Directors through the Audit Committee.

On the basis of Spanish legislation concerning countries regarded as tax havens (Royal Decree 1080/1991, 5 July, and Royal Decree 116/2003, 31 January), Gas Natural Fenosa has four shareholdings in companies incorporated in such territories:

- Holdings of 95.0% in Buenergía Gas & Power, Ltd, 47.5% in Ecoeléctrica Holding, Ltd and 47.5% in Ecoeléctrica Limited, all of which are domiciled in the Cayman Islands. These are companies that directly or indirectly hold interests in a single industrial concern that carries out gas combined cycle electrical generation in Puerto Rico (Ecoeléctrica, L.P), whose income is taxed in this country and which does not provide Gas Natural Fenosa with any tax benefits.
- Holdings of 31.1% in Gasoducto del Pacifico (Cayman), Ltd. addressed in Caiman Islands. It is a Company without activity incorporated in the group as a consequence of the acquisition of the CGE group and does not provide any tax advantage for Gas Natural Fenosa.

Intragroup transactions with these entities relate to dividends received, as follows

Receiving subsidiary	Distributing subsidiary	Amount (thousand Euros)
Global Power Generation, S.A.	Buenergía Gas & Power, Ltd.	39,037
Buenergía Gas & Power, Ltd.	Ecoeléctrica Holding, Ltd.	51,886
Ecoeléctrica Holding, Ltd.	Ecoeléctrica, L.P. y Ecoeléctrica, Ltd.	51,886
Ecoeléctrica, Ltd.	Ecoeléctrica, L.P.	519

Tax contribution

Gas Natural Fenosa is aware of its responsibility for the economic development of the communities in which it conducts its business. The taxes it pays represent a significant part of the economic contribution made to the countries in which it operates. Therefore, Gas Natural Fenosa pays priority attention to fulfilling its obligation to pay taxes due under the laws of each territory.

The taxes paid by Gas Natural Fenosa have considerable economic importance and involve a major compliance effort under formal obligations and cooperation with the tax authorities.

The total tax contribution of Gas Natural Fenosa amounted to Euros 3,636 million in 2015 (Euros 3,741 million in 2014). The following table shows the disclosure of the effective taxes paid by Gas Natural Fenosa by countries segmented between those that represent actual expenditure for the group (called group taxes) and those that are withheld or passed on to the end taxpayer (called third-party taxes):

Country	Group taxes						Third-party taxes									
	Corporate income tax ¹		Others ²		Total		VAT		Tax on hydrocarbons		Others ³		Total		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Spain	347	402	549	538	896	940	1,169	1,257	362	356	200	206	1,731	1,819	2,627	2,759
Argentina	4	7	40	30	44	37	13	9	–	1	16	15	29	25	73	62
Brazil	51	86	44	66	95	152	56	67	–	–	18	3	74	70	169	222
Colombia	69	84	78	96	147	180	9	9	–	–	22	26	31	35	178	215
Chile ⁴	48	5	16	–	64	5	99	4	–	–	22	2	121	6	185	11
Mexico	33	51	4	3	37	54	32	30	–	–	12	9	44	39	81	93
Panama	8	32	11	7	19	39	–	–	–	–	4	3	4	3	23	42
Rest LatAm	11	12	1	1	12	13	3	2	–	–	2	3	5	5	17	18
Italia	14	26	5	5	19	31	30	37	34	28	5	5	69	70	88	101
Rest	10	10	35	65	45	75	112	120	32	17	6	6	150	143	195	218
Total	595	715	783	811	1,378	1,526	1,523	1,535	428	402	307	278	2,258	2,215	3,636	3,741

¹ Corresponds to corporate income tax actually paid during the year. Does not include accrued amounts. Information on the reconciliation between the corporate income tax recorded and the amount that would result from applying the nominal income tax rate currently prevailing in the country of the parent company (Spain) to pre-tax profits is detailed in Note 21 (Tax Situation) to the consolidated annual accounts.

² Includes energy taxes which in Spain amounted to Euros 262 million in 2015 (Euros 257 million in 2014), local taxes, employer's Social Security contributions and other taxes specific to each country.

³ Basically includes employee income tax withholdings and employees' Social Security contribution.

⁴ Relates to December 2014 as a result of the business combination performed at 30 November 2014.

4. Main risks and uncertainties

4.1 Operating risks

4.1.1. Regulatory risk

Gas Natural Fenosa and its subsidiaries are required to comply with legislation governing the natural gas and electricity sectors. In particular, gas and electricity distribution are regulated activities in most of the countries in which Gas Natural Fenosa performs them.

Legislation applicable to the natural gas and electricity sectors in the countries in which Gas Natural Fenosa operates is generally revised on a regular basis by the competent authorities. Any amendments brought in could affect the current remuneration system for regulated activities, adversely impacting Gas Natural Fenosa's business, profits, grants and financial situation.

Should competent public or private bodies interpret or apply such regulations based on criteria that differ from those of Gas Natural Fenosa, regulatory compliance could be questioned or appealed and, in the event that any infringement were demonstrated, there could be a material adverse impact on Gas Natural Fenosa's business, prospects, profits, grants and financial position.

Regulatory risk management is founded on smooth communication between Gas Natural Fenosa and regulators. Additionally, in the course of its regulated activities, Gas Natural Fenosa ensures that its costs and investments are aligned with the rates of return recognised for each business.

4.1.2. Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts containing clauses whereby Gas Natural Fenosa is obligated to purchase certain annual volumes of gas (known as take-or-pay clauses). Under such contracts, even if Gas Natural Fenosa does not need to acquire the committed volume of gas at a given time, it is contractually obligated to pay for the minimum volume committed in the take-or-pay clauses.

The contracts stipulates gas volumes in line with Gas Natural Fenosa's estimated needs. However, actual needs may be below the volumes estimated when the contracts are concluded. In the event of significant departures from the estimates, Gas Natural Fenosa will be obligated to purchase a large volume of gas than is actually needed or, failing this, to pay for the minimum volume of gas committed, irrespective of whether or not it acquires the volume that exceeds its needs; this could have a significant adverse effect on Gas Natural Fenosa's operating costs.

In the electricity business, Gas Natural Fenosa's results are exposed to the contracting of electricity generation volumes, which is conditional on the evolution of demand for electricity. Additionally, in view of the major role played by combined-cycle technology in Gas Natural Fenosa's generation plants, volumes generated could be reduced by the increasing relative significance of generation using renewable energies.

A decrease in volumes generated would increase uncertainty as regards the achievement of generation/retailing objectives.

Gas Natural Fenosa's management of contracts and assets is in a globally integrated manner to optimise energy balance sheets, allowing the correction of any departures in the most profitable manner possible.

4.1.3. Operational risk

a) Insurable risks

Gas Natural Fenosa's activities are exposed to a variety of operational risks such as faults in the distribution network, in electricity generation facilities and in methane tankers, explosions, polluting emissions, toxic spillage, fire, adverse weather conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that could cause bodily injuries and/or material damage, affecting or destroying Gas Natural Fenosa's facilities or property. Events such as these, or similar events, are unforeseeable and may interrupt the supply of gas and generation of electricity. In such situations, although coverage is provided by risk insurance policies, such as policies covering potential loss of profit and material damage, Gas Natural Fenosa's financial situation and results could be affected to the extent that any losses caused are not insured, coverage is insufficient, or economic losses are generated due to coverage limits or an increase in the excess, as well as potential increases in premiums paid to insurers.

Gas Natural Fenosa could also be subject to third-party liability claims for bodily injury and/or other damage caused in the ordinary course of business. Such claims could result in the payment of indemnities under legislation applicable in the countries in which Gas Natural Fenosa operates, which could have a material adverse impact on the business, prospects, financial situation and results if the third-party liability insurance policies contracted do not cover the amount of the indemnities.

Gas Natural Fenosa prepares continuous improvement plans to reduce the frequency and severity of potential incidents. Specific asset supervision units have been created to intensify preventive and predictive maintenance, among other measures. Additionally, our approach to insurance coverage is based on optimising the Total Cost of Risks.

b) Image and reputation

Gas Natural Fenosa is exposed to opinions and perceptions of a variety of stakeholders. Such perceptions may be adversely impacted by events caused by the Company or by third parties over which the Company has little or no control, impacting our own reputation or the reputation of the industry as a whole. Should these impacts arise, they could cause medium-term financial damage as a result of an increase in demands from regulators, financing costs or commercial efforts to win customers.

Gas Natural Fenosa is engaged actively in identifying and monitoring potential reputational events and the stakeholders affected. Transparency also forms part of our communication policy.

c) Environment

Gas Natural Fenosa's activities are subject to extensive legislation on environmental protection.

Gas Natural Fenosa and its subsidiaries must comply strictly with extensive environmental protection regulations requiring, among other aspects, the preparation of environmental impact analyses, obtainment of authorisations, licences and permits, and fulfilment of certain requirements. Considerations include:

- > Environmental authorisations and licences might not be granted or could be revoked due to the infringement of conditions imposed;
- > The regulatory framework or its interpretation by the authorities could undergo amendments or changes, which could cause an increase in costs or new deadlines.

In order to mitigate this risk, Gas Natural Fenosa has adopted an integrated environmental management system and has emergency plans for facilities where accidents could cause environmental impacts. Specific insurance policies have also been taken out to cover this type of risks.

d) Climate change

Demand for electricity and natural gas is related to climate change. A significant part of gas consumption during the winter months depends on electricity generation and its use in heating systems, while summer consumption depends basically on electricity generation for use in air-conditioning systems. Gas Natural Fenosa's revenue and results from natural gas distribution and retailing activities could be adversely affected in the event that the autumn months become warmer or winters become milder. Demand for electricity could also fall if summers become milder, due to a decline in demand for air-conditioning. Additionally, hydroelectric generation plant occupancy depends on rainfall levels in the plant locations and could be affected by droughts.

European policies and measures to combat climate change could affect Gas Natural Fenosa's results in the event that the Company's generation mix competitiveness is altered.

Gas Natural Fenosa forms part of a number of work groups at the European level, allowing early adaptation of strategies to new regulations. Gas Natural Fenosa also forms part of clean development projects designed to reduce CO₂ emissions.

e) Geopolitical exposure

Gas Natural Fenosa has interests in countries with different political, economic and social environments; in this regard, two main areas are particularly relevant:

> Latin America

A large part of Gas Natural Fenosa's operating profits are generated by our Latin American subsidiaries. Latin American operations are exposed to a number of risks inherent in investment in this region. Risk factors linked to investment and business in Latin America include:

- Considerable influence of local governments on the economy;
- Significant fluctuation in the economic growth rate;
- High inflation;
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of earnings;
- Fluctuating interest rates;
- Changes in financial, economic and fiscal policies;
- Unexpected changes to regulatory frameworks;
- Social tensions and
- Political and macroeconomic instability.

> Middle East and Maghreb

Gas Natural Fenosa has both its own assets and major contracts for the supply of gas from various Maghreb countries and the Middle East, particularly Egypt. Political instability in the zone may result in physical damage to the assets of Gas Natural Fenosa's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

Gas Natural Fenosa has a diversified portfolio both in the countries in which it carries on energy distribution activities (Latin America, Europe) and the countries from which gas is supplied (Latin America, Africa, Middle East, Europe). Diversification minimises the risk of expropriation and supply interruption due to the knock-on effect of political instability in neighbouring countries. Specific insurance policies have also been taken out for these risks. Specific insurance policies have also been taken out for these risks.

4.2 Financial risks

Financial risks (interest rate, exchange rate, commodities prices, credit risk, liquidity risk) are explained in Note 16 to the Consolidated Annual Accounts.

4.3 Main opportunities

Gas Natural Fenosa's main opportunities are as follows:

- > Generation mix: Gas Natural Fenosa's generation plants, consisting mainly of combined-cycle facilities, has the necessary flexibility to adapt to different market circumstances; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets.
- > CO₂ market evolution: The mechanisms proposed by the European Commission to increase the cost of emission rights are intended to discourage the use of the more polluting technologies so as to counteract Climate Change. In this context, Gas Natural Fenosa's plants would be more competitive than coal plants and opportunities could also arise in the emissions market.
- > NG/LNG supply portfolio: Management of gas pipelines, investment in plants and the fleet of methane tankers allows the Group to meet its business needs in a flexible, diversified manner, optimising our approach to each energy scenarios. Specifically, our fleet of methane tankers makes Gas Natural Fenosa one of the world's leading LNG operators and a benchmark in the Atlantic and Mediterranean basin.
- > Balanced structural position in business and geographical areas, many with stable flows, irrespective of commodities prices, which enable the expected growth in energy demand as from 2015 to be fully taken advantage of and new business opportunities in new markets to be maximised.

5. Group's foreseeable evolution

5.1 Strategic priorities

In order to achieve our objectives, Gas Natural Fenosa defines medium-term strategies that are updated periodically to adapt to current and future circumstances, taking into consideration the peculiarities of each of the Company's business lines.

In November 2013, Gas Natural Fenosa presented its updated Strategic Plan 2013-2017, establishing the Group's strategic priorities for the period 2013-2015 and the foundations for growth post 2015. Gas Natural Fenosa is currently working on the Strategic Plan 2016-2020.

5.2 Financial priorities

The strategic priorities for the period 2013-2015 are based on a financial policy consistent with growth and dividend targets:

- > Strategic lines defined in the context of financial discipline.
- > Flexibility to increase investments for future growth if necessary.
- > Cash dividend commitment.

Compliance with strategic goals for 2015 (data in thousand euros) are listed below:

	2015 targets	Figures end-2015
Ebitda 2015	> 5,000	5,264
Net profit	~ 1,500	1,502
Dividend (Pay-out) (%)	~ 62	62.1
Net debt/ebitda 2015	~ 3.0x	3.0x

Gas Natural Fenosa has once again fulfilled its commitment to strategic objectives, this time in relation to the Strategic Plan 2013-2015.

5.3 Group's prospects

The new Strategic Plan 2016-2022 will define the strategic focuses of Gas Natural Fenosa.

However, the following progress made on the three lines of growth identified in the current Strategic Plan (distribution networks, power generation and gas sales) should be highlighted, which will enable Gas Natural Fenosa to continue growing in the future:

- > Distribution networks: in gas networks, the entry into the distribution business in the Arequipa region in Peru, the new concessions granted in Mexico and, in Spain, the acquisition of Gas Directo, the supply to new municipalities in mainland Spain and the acquisition of supply points from Repsol for piped propane for connection to the natural gas distribution network. Additionally in, gas and electricity networks, the recent acquisition of the CGE group in Chile.
- > Electricity generation: the incorporation of 520 MW to overall volume following the start-up of the Bii Hioxo wind farm in Mexico, the Torito plant in Costa Rica and the acquisition of Gecalsa which brings 230MW in renewable energy. The creation of GPG as an operations and international growth platform should also be mentioned, which will be reinforced by the recent inclusion of KIA among its shareholders.
- > Gas sales: new gas supply contracts totalling approximately 11 bcm relating to the two projects in Cheniere (Sabine Pass and Corpus Christi), the Yamal LNG project in Russia and the Shah Deniz II project in Azerbaijan. The capacity of the methane tanker fleet will also be doubled by adding five gas tankers to the fleet which, by virtue of their larger size, will contribute an additional combined capacity of almost one million cubic metres. In terms of sales volume, in 2016 an increase of around 7% is expected basically due to the effect of the first Cheniere contract with respect to the expected volume for 2015, representing an estimated total volume of 335 TWh.

Gas Natural Fenosa is therefore expected to continue along the path to organic growth in 2016 and beyond.

6. R&D&i activities

Innovation is one of the drivers of Gas Natural Fenosa's development; considerable resources and efforts are therefore devoted to R&D&i activities, seeking to optimise resources, develop new technologies and keep abreast of technological advances in the sectors in which we operate.

Investment in technological innovation activities is analysed below:

	2015	2014	2013	% change
Total investment (million euro)	15.7	13.7	12.5	14.6

Gas Natural Fenosa will focus its innovation activities on the technological lines defined in the Technology Plan, some of which are summarised below:

- › Electricity transmission and distribution: the main activities in 2015 continued to centre in the automation of the operation and maintenance of electrical infrastructure. In this area we should note the importance of smart networks which are primarily designed to optimise the distribution network, paying special attention to improving the reliability, safety and quality of the electrical system. Initiatives are also being encouraged to optimise the functionalities provided by intelligent networks and remote management, as well as improving the quality of electricity supply and cutting down incidents. Projects focused on the development of new technologies have also continued to progress.
- › Energy storage: activities are oriented towards an even greater increase in the quality and reliability of supply, to develop joint solutions with customers and also to allow greater and easier integration into the grid of electricity from renewable sources. Activities developed in this line for 2015 include the project for a demonstration of lithium-ion technology for services to the medium-voltage distribution network. As for small-scale storage solutions for domestic end customers, a pilot scheme is being implemented for commercial solutions with respect to batteries for energy management and self-consumption support.
- › Renewable energies: The Company's main objectives include the development of new technologies to increase the percentage of renewable energy in its portfolio. It is therefore working on the implementation of innovative projects to evidence technical and economic viability when implementing these technologies. Efforts are also being focused on the optimisation of the group's facilities to increase the level of efficiency and safety at the company's energy park, particularly in the wind energy area.
- › Efficiency and energy services: Work is under way on two levels; on the one hand, to improve processes to increase energy efficiency in every link in our value chain and on the other, focusing on customers, providing them with all the information and services possible to help them reduce their energy consumption.

- **Advanced generation technologies:** we are working on projects aimed at improving the return on assets, to reduce the environmental impact due to emissions, to improve the flexibility of operations and reduce water consumption. Among the initiatives in this area we should highlight the HiperCap project (High Performance Capture) which aims to develop new and improved technologies for capturing carbon dioxide (CO₂) in post-combustion, some of which can be implemented industrially in the short term with a better energy performance than current technologies. Work also continues in this line on the Menos H2O project aimed at reducing water consumption in combined cycle plants and optimising the resources used in their treatment.
- **Advanced gas network solutions:** the aim is to provide greater automation in the operation of these networks and achieve greater customer interaction. The main actions carried out in this line are aimed at optimising the distribution system using new materials and systems to make it viable to supply gas to a greater number of customers.
- **Sustainable mobility:** has focused primarily on the development of projects for sea and land transport using gas as a fuel. During 2015, the GARneT (Gas an Alternative for Road Transport) and LNG Bluecorridors projects have continued to demonstrate the advantages of using liquefied natural gas as a clean fuel for long-distance heavy road vehicles. With regard to sustainable maritime mobility, Gas Natural Fenosa is developing initiatives such as the Abel Matutes project for the installation of an auxiliary natural gas engine in the passenger ferry of the same name for port service and the Core LNG Hive project focused on the supply of LNG for port and maritime transport in the main Spanish and Portuguese ports, within the context of the central Atlantic and Mediterranean corridors of the Trans-European Transport Network.
- **Renewable gas:** projects are under way aimed at producing renewable origin methane from difference sources with particular emphasis in the short term on waste and biomass, for injection into the natural gas network or for use as fuel in the transport industry.

7. Annual Corporate Governance Report

Attached hereto as an Appendix to this Director's Report, and forming part of the same, is the Annual Corporate Governance Report for 2015, as required under article 526 of the Spanish Companies Act.

8. Treasury shares

The General Meeting held on 20 April 2010 resolved to provide the Board of Directors with specific authorisation, including the power to delegate, to acquire fully-paid Company shares, for valuable consideration, within a period not exceeding five years, up to a maximum of 10% of share capital or the maximum figure permitted under regulations in force at the acquisition date; the total par value of treasury shares may not exceed 10% of issued share capital, or any other percentage that may be legally stipulated.

By virtue of this authorisation, in 2015 2,899,180 treasury shares were acquired amounting to Euros 58 million and were disposed of in full for Euros 60 million. During 2014, 1,128,504 treasury shares were acquired for Euros 23 million, of which 174,998 treasury shares, totalling Euros 3 million were handed over to the Group's employees as part of their 2014 remuneration under the Share Acquisition Plan 2012-2013-2014 (Note 6.10.d); the remainder were sold for Euros 20 million. At year-end 2015 and 2014, Gas Natural Fenosa held no treasury shares.

9. Events after the reporting date

Events after the reporting date are described in Note 35 to the Annual Accounts.

A. Capital Structure

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
22/06/2012	1,000,689,341	1,000,689,341	1,000,689,341

Please indicate whether or not there are different types of shares with different rights associated:

No

Type	Number of shares	Face value	Number of voting rights	Different rights
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A.2 Provide details of the direct and indirect owners of significant stakes in your company at year end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the stake	Number of voting rights	
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation	40,092,780	-	0	4.01
Repsol, S.A.	300,216,871	-	0	30.00
		Caixabank, S.A.	208	0.00
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	0	Vidacaixa S.A. de Seguros y Reaseguros	1,438	0.00
		Criteria Caixa, S.A.U.	344,609,780	34.44

Indicate the most significant changes in the shareholder structure occurred during the year:

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the stake	Number of voting rights	
Mr Salvador Gabarró Serra	3,262			0.00
Mr Antonio Brufau Niubó	81,139			0.01
Mr Rafael Villaseca Marco	13,055			0.00
Mr Ramón Adell Ramón	5,000			0.00
Mr Enrique Alcántara-García Irazoqui	8,339			0.00
Mr Xabier Añoveros Trías de Bes	350			0.00
Mr Francisco Belil Creixell	7,128			0.00
Mr Demetrio Carceller Arce	2,826	Inversión Las Parras de Castellote, S.L.	15,000	0.00
Mr Isidro Fainé Casas	0			0.00
Mrs Benita María Ferrero-Waldner	0			0.00
Mrs Cristina Garmendia Mendizábal	0			0.00
Mr Emiliano López Achurra	1,098			0.00
Mr Miguel Martínez San Martín	0			0.00
Mr Heribert Padrol Munté	1,148			0.00
Mr Juan Rosell Lastortras	0	Mr Juan Rosell Codinachs	2,000	0.00
Mr Luis Suárez de Lezo Mantilla	18,156			0.00
Mr Miguel Valls Maseda	7,000			0.00
% total voting rights in possession of the Board of Directors				0.01

Fill in the following tables regarding the members of the company's Board of Directors who own stock options in the company:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	Contractual and commercial	Details of commercial or corporate relations between "la Caixa" and Repsol S.A. are provided in the information prepared by said groups. See also parallel shareholders agreements, section A.6.
Repsol, S.A.	Contractual and commercial	Details of commercial or corporate relations between "la Caixa" and Repsol S.A. are provided in the information prepared by said groups. See also parallel shareholders agreements, section A.6.

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures	Commercial	Relations arising from normal trading activities.

A.6 Indicate whether or not the Company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes

Percentage of share capital affected: 64.44%

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement
Repsol, S.A.	30.00	Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003.
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	34.44	<p>(i) Repsol and "la Caixa" shall preserve at all times the principles of transparency, independence and professionalism in the management of Gas Natural Fenosa through maintaining full control of said company.</p> <p>(ii) The Board shall comprise seventeen (17) members, five (5) appointed by Repsol, five (5) appointed by "la Caixa", one (1) Director representing Caixa Catalunya and six (6) Independent Directors jointly nominated by "la Caixa" and Repsol. Repsol and "la Caixa" shall vote in favour of the appointments put forward by the other party.</p> <p>(iii) Among the Directors nominated by each of the parties, "la Caixa" shall propose who should hold the position of Chairman of the Board and Repsol to the Chief Executive Officer. The Repsol and "la Caixa" Directors shall vote in favour of the proposed appointments for each of the positions.</p> <p>iv) The Executive Committee shall be comprised by eight (8) members, of which three (3) shall be elected from among the Directors nominated by Repsol, including the CEO, three (3) from among those proposed by "la Caixa", including the Chairman, and two (2) from among the Independent Directors.</p> <p>(v) In accordance with the principles outlined in section (i) above, the parties in good faith and in the sole interest of Gas Natural Fenosa, shall reach a consensus on the Gas Natural Fenosa Strategic Plan, prior to its submission to the Board of Directors, which shall include all decisions affecting the basic outlines of the company's strategy: its organisational structure, annual budget, operations of concentration, transfer and the acquisition of assets that are essential in the strategic development of Gas Natural Fenosa. Significant facts: No. 20320 dated 12/01/2000, No. 35389 dated 22/05/2002 and Nos. 42788 – 42785 – 42790 and 42784 dated 20/06/2003.</p>

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes

Percentage of share capital affected: 64.44%

Parties to concerted action	% of share capital affected	Brief outline of concerted action
Repsol, S.A.	30.00	Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section,
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	34.44	"la Caixa" and Repsol, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural Fenosa owing to regulatory requirements and for competition purposes. They jointly have a share in the company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural Fenosa. Significant facts: No. 20320 dated 12/01/2000, No. 35389 dated 22/05/2002 and Nos. 42788 – 42785 – 42790 and 42784 dated 20/06/2003.

If any modification or cancellation of said agreements or concerted actions has taken place during the year, please make express mention of this:

No modifications have been made.

A.7 Indicate if there is any individual person or legal entity that exercises or who might exercise control of the company pursuant to Article 5 of the Securities Market Act. Respond, where applicable:

Yes

Name or company name

Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")

Repsol, S.A.

Observations

Control may be exercised through the concerted action specified in section A.6.

A.8 Complete the following tables concerning the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares*	% of share capital
0	0	0.000

*Through:

Explain the significant changes occurring during the year pursuant to Royal Decree 1362/2007:

A.9 Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the Board of Directors for issuing, repurchasing or assigning own shares.

The General Meeting of Shareholders held on 14 May 2015, in item 14 of the agenda, authorised the Board of Directors to agree the acquisition of the company shares in exchange for valuable consideration and to do so within a deadline of five years, under the following conditions:

Fourteen.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through group companies of Gas Natural SDG, S.A., under the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

Fourteen 1.- With regard to the part not used, to cancel the authorisation granted to the Board of Directors by the General Meeting held on 20 April 2010 to acquire company shares by onerous title.

Fourteen 2.- To authorise the Board of Directors to acquire within a term of no longer than five years fully paid-up company shares to a maximum of 10% of share capital by onerous title, on one or more occasions, or the maximum applicable figure in accordance with the legislation in force at the time of acquisition, provided that the aforesaid percentage between the shares acquired by the company directly or indirectly and those already held by the company and its subsidiaries should never exceed 10% of share capital or any other legally prescribed percentage of capital. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%.

If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is empowered to delegate this authorisation to the Executive Committee or to the person or persons it deems pertinent. This authorisation is understood to apply to the acquisition of the company's shares by owned companies.

Likewise, point ten of the agenda of the General Meeting of Shareholders of 20 April 2012 agreed the following:

Ten.- Authorisation for the Board of Directors, with substitution powers on the Executive Committee, in accordance with the provisions laid down in Article 297.1 b) of the Corporate Enterprises Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the share capital of the company at the time of authorisation, with the possibility of incomplete subscription, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, on one or more occasions and to the amount it considers appropriate, including the right to remove, where appropriate, the pre-emptive subscription right, rewriting the articles of the Articles of Association and rendering null and void the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

Ten

- 1) Taking into consideration the current share capital figure, to authorise the Board of Directors, with the power to delegate this to the Executive Committee, to increase the share capital by FOUR HUNDRED AND NINETY FIVE MILLION EIGHT HUNDRED AND THIRTY SIXTHOUSAND AND SIXTY NINE EUROS (495,836,069 euros), within five (5) years from today's date, through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for fresh authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Corporate Enterprises Act, rendering null and void the authorisation agreed by the Ordinary General Meeting of 20 April 2010.
- 2) The Board of Directors is expressly empowered to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation.
- 3) As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:

“Transitory Article - Delegation to the Board of Directors.

The company’s Board of Directors, with the powers of replacing this delegation with the Executive Committee has been authorised to increase the share capital by FOUR HUNDRED AND NINETY FIVE MILLION EIGHT HUNDRED AND THIRTY SIX THOUSAND AND SIXTY NINE EUROS (495,836,069 euros), within five (5) years from today’s date, through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for new authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Corporate Enterprises Act”.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	31.54

A.10 Indicate whether there is any restriction on the transferability of securities and/or any restrictions on the voting rights. In particular, report the existence of any kind of restriction that may hamper taking control of the company through the acquisition of its shares in the market.

Yes

Description of the restrictions

As a company that incorporates certain regulated and quasi-regulated assets and activities into its group, the acquisition of Gas Natural SDG, S.A. assets may be subject to the provisions laid down in Additional Provision 9 of Law 3/2013 of 4 June, governing the National Commission of Markets and Competition.

Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.

A.11 Indicate whether the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

No

A.12 Indicate whether the company has issued securities that are not traded on a regulated community market.

No

B. General Meeting

B.1 Indicate and, where applicable, give details of whether or not there are differences between the quorum system laid down in the Corporate Enterprises Act (LSC) and the quorum for constituting the General Meeting of Shareholders.

No

B.2 Indicate and, where applicable, give details of whether or not there are differences between the system laid down in the Corporate Enterprises Act (LSC) and the system for adopting corporate agreements:

No

Describe how the system differs from that of the LSC.

B.3 Specify the rules applicable to modification of the company's Articles of Association. In particular, report the majorities required for amendment of the Articles of Association, as well as, where appropriate, the rules for protection of shareholders' rights in modification of the Articles of Association.

Modification of the Articles of Association is regulated in Articles 24, 32 and 68 of the Articles of Association and in Article 2 of the Regulations of the General Meeting.

The shareholders constituted in a duly convened General Meeting, shall decide by majority vote on the matters which fall to the terms of reference of the meeting. In this event, a resolution shall be understood as adopted when it obtains more votes in favour than against with regard to the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting.

In order for the ordinary or extraordinary General Meeting to validly agree the issue of bonds, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five percent (25%) of the share capital to be present.

The modification of the Articles of Association must be agreed by the General Meeting and requires the concurrence of the following requisites:

- 1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.
- 2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.
- 3) The agreement must be adopted by the General Meeting in accordance with the provisions set out in these Articles of Association.
- 4) Under all circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Register and published in the Register's Official Gazette.

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers and the data for the previous year:

Date of General Meeting	% physical presence	Attendance data				% Total
		% represented	% remote voting			
			Electronic voting	Others		
11/04/2014	68.65	12.67	0	0	81.32	
14/05/2015	68.57	11.96	0	0	80.53	

B.5 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting:

Yes

Number of shares required to attend the General Meeting

100

B.6 Repealed section.

B.7 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the route is as follows:
www.gasnaturalfenosa.com – Shareholders and Investors – Corporate Governance.

With regard to the General Meeting section, the route is as follows:
www.gasnaturalfenosa.com – Shareholders and Investors – General Meeting.

C. Structure of the Management of the Company

C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors stipulated in the Articles of Association:

Maximum number of Directors	20
Minimum number of Directors	10

C.1.2 Complete the following table with the members of the Board:

Name or company name of Director	Representative	Category of the Director	Position on Board	Date first appointment	Date last appointment	Election procedure
Mr Salvador Gabarró Serra	–	Executive	Chairman	23/06/2003	16/04/2013	Resolution of the General Meeting of Shareholders
Mr Antonio Brufau Niubó	–	Proprietary	Deputy Chairman	16/06/1989	11/04/2014	Resolution of the General Meeting of Shareholders
Mr Rafael Villaseca Marco	–	Executive	Chief Executive Officer	28/01/2005	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Ramón Adell Ramón	–	Independent	Director	18/06/2010	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Enrique Alcántara-García Irazoqui	–	Proprietary	Director	27/06/1991	11/04/2014	Resolution of the General Meeting of Shareholders
Mr Xabier Añoveros Trías de Bes	–	Independent	Director	20/04/2012	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Francisco Belil Creixell	–	Independent	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Demetrio Carceller Arce	–	Proprietary	Director	29/06/2007	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Isidro Fainé Casas	–	Proprietary	Director	18/05/2015	18/05/2015	Resolution of the General Meeting of Shareholders
Mrs Benita María Ferrero-Waldner	–	Independent	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mrs Cristina Garmendia Mendizábal	–	Independent	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Emiliano López Achurra	–	Independent	Director	23/06/2003	16/04/2013	Resolution of the General Meeting of Shareholders
Mr Miguel Martínez San Martín	–	Proprietary	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Heribert Padrol Munté	–	Proprietary	Director	20/04/2012	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Juan Rosell Lastortras	–	Proprietary	Director	26/06/2009	16/04/2013	Resolution of the General Meeting of Shareholders
Mr Luis Suárez de Lezo	–	Proprietary	Director	26/02/2010	11/04/2014	Resolution of the General Meeting of Shareholders
Mr Miguel Valls Maseda	–	Independent	Director	28/01/2005	14/05/2015	Resolution of the General Meeting of Shareholders
Total number of directors						17

Indicate the replacements occurring in the Board of Directors during the reporting period:

Name or company name of Director	Category member of the Board at the time of replacement	Replacement date
Mr Santiago Cobo Cobo	Independent	14/05/2015
Mr Nemesio Fernández-Cuesta Luca de Tena	Proprietary	14/05/2015
Mr Felipe González Márquez	Independent	14/05/2015
Mr Carlos Losada Marrodán	Independent	14/05/2015
Mr Juan María Nin Génova	Proprietary	14/05/2015

C.1.3 Complete the following tables regarding the members of the Board of Directors and their different status:

Executive Directors

Name or company name of Director	Position in the company's management structure
Mr Salvador Gabarró Serra	Chairman
Mr Rafael Villaseca Marco	Chief Executive Officer
Total number of Executive Directors	2
% of the entire Board	11.76

External Proprietary Directors

Name or company name of Director	Name or title of significant shareholder he/she represents or who proposed appointment
Mr Antonio Brufau Niubó	Repsol, S.A.
Mr Enrique Alcántara-García Irazoqui	Criteria Caixa, S.A.U.
Mr Demetrio Carceller Arce	Repsol, S.A.
Mr Isidro Fainé Casas	Criteria Caixa, S.A.U.
Mr Miguel Martínez San Martín	Repsol, S.A.
Mr Heribert Padrol Munté	Criteria Caixa, S.A.U.
Mr Juan Rosell Lastortras	Criteria Caixa, S.A.U.
Mr Luis Suarez de Lezo Mantilla	Repsol, S.A.
Total number of Proprietary Directors	8
% of the entire Board	47.06

External Independent Directors

Name or company name of Director	Profile
Mr Ramón Adell Ramón	Professor of Financial Economics and Accounting at the University of Barcelona
Mr Xabier Añoveros Trías de Bes	Doctorate in Law
Mr Francisco Belil Creixell	BS Engineering Degree
Mrs Benita María Ferrero-Waldner	Doctorate in Law
Mrs Cristina Garmendia Mendizabal	Doctorate in Biology
Mr Emiliano López Achurra	Lawyer
Mr Miguel Valls Maseda	Business Studies Graduate
Total number of Independent Directors	7
% total of the Board	41.18

Indicate whether or not any Director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as Director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, Director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the Board on the grounds why it believes this Director may perform his duties as an Independent Director.

Name or company name of Director	Description of the relationship	Reasoned statement
Mr Miguel Valls Maseda	Director at VidaCaixa S.A. de Seguros y Reaseguros	<p>Vidacaixa has had business dealings as a service supplier of Gas Natural SDG, S.A. and its group companies for an amount of 23,151,347.64 euros in 2014. The consolidated amount of purchases and expenditure of the Gas Natural Fenosa Group for the same financial year is around 21.413 billion euros. This means that from the Gas Natural SDG, S.A. standpoint, there is no compliance with the regulatory established significance. As regards Vidacaixa, in 2013 it had revenue through insurance premiums in excess of 5 billion euros, and therefore also failed to reach the threshold of significance from the Vidacaixa standpoint.</p> <p>Mr Miguel Valls Maseda, therefore satisfies the appropriate personal and professional conditions, and there are no objective circumstances that prevent this qualification - he is not an Executive Director, he does not have a significant shareholding, he does not represent any significant shareholder, and he is not affected by any situations that prevent his qualification as Independent.</p>

Other External Directors

Other External Directors shall be identified and the reasons given why they cannot be considered as Proprietary or Independent Directors, and their bonds, whether with the company, its executives or shareholders:

Indicate the changes, if any, in the type of Director during the period:

Name or company name of Director	Date of change	Former status	Present status
Mr Salvador Gabarró Serra	27/03/2015	Proprietary	Executive

C.1.4 Complete the following table with information concerning the number of female Directors over the last four years, as well as the nature of such Directors:

	Number of female Directors				% over the total of Directors from each category			
	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	0	0	0	11.76	0	0	0
Other external	0	0	0	0	0	0	0	0
Total	2	0	0	0	11.76	0	0	0

C.1.5 Explain the measures which, where appropriate, have been adopted to include a number of women on the Board of Directors, thus enabling a balanced presence of men and women.

Explanation of the measures

The Appointments and Remuneration Committee shall ensure that for covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female Directors, and which show that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates:

Explanation of the measures

The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, compliance with the requirements needed for each category of Director and the incorporation process of new members, forwarding the opportune reports or proposals to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

When, despite the measures adopted, the number of female Directors is zero or few, explain the reasons for this:

Explanation of the reasons

50% of the new Directors incorporated at the General Meeting of Shareholders of 14 May 2015 were women. This percentage rose to 67% in the case of new incorporations of Independent Directors. The decision level of the Appointments and Remuneration Committee with regard to Proprietary Directors is logically lower.

C.1.6 bis Explain the conclusions drawn by the Appointments Committee with regard to verification of compliance with the screening of Directors policy. And more specifically, how this policy is fostering the objective whereby the number of female Directors by 2020 will represent at least 30% of all members of the Board of Directors.

The Appointments and Remunerations Committee has verified the Director screening policy and has concluded that this is in line with the corporate needs and the good corporate governance recommendations. The company has gone from having no female Directors in 2015 to having two female Directors. As specified, this represents half of the new incorporations over the year.

C.1.7 Explain how shareholders with significant stakes are represented on the Board.

Of the three significant shareholders the company currently has, only two of these have Proprietary Directors.

Both Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") and Repsol, S.A. are represented, respectively, by the External Proprietary Directors referred to in section C.1.3.

By virtue of the parallel shareholder agreements in force, Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") will propose the party to hold the position as Chairman of the Board, and Repsol, S.A. will propose the Chief Executive Officer. The Directors of Repsol, S.A. and Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") will vote in favour of the members proposed by each of them for the aforementioned posts. (See sections A.6 and C.1.3.).

C.1.8 Explain, if appropriate, the reasons why Proprietary Directors have been appointed at the request of shareholders whose shareholding is less than 3% of the share capital:

Name or company name of shareholder	Explanation
-------------------------------------	-------------

Indicate whether or not formal requests have been accepted for presence on the Board from shareholders whose holding is equal to or higher than that of others for whom Proprietary Directors have been appointed. Where applicable, explain the reasons why they have not been accepted:

No

C.1.9 Indicate whether or not a Director has resigned from his/her post before the conclusion of his/her term of office, whether or not he/she has provided the Board with reasons and through which medium and, if he/she has done so in writing to the entire Board, explain at least the reasons given:

C.1.10 Indicate, where applicable, the powers delegated to the Chief Executive Officer(s):

Name or company name of Director	Brief outline
Mr Rafael Villaseca Marco	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the Chief Executive Officer.

C.1.11 Indicate, where applicable, the Board Members holding positions of administrators or executives in other companies forming part of the group of the listed company:

Name or company name of Director	Company name of group company	Position	Does he/she have executive duties?
Mr Rafael Villaseca Marco	Compañía General de Electricidad, S.A.	Chairman	No

C.1.12 Identify, if applicable, the Directors of your company who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported to the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr Luis Suárez de Lezo	Repsol, S.A.	Voting Secretary
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Isidro Fainé Casas	Caixabank, S.A.	Chairman
Mr Isidro Fainé Casas	Telefónica, S.A.	Deputy Chairman
Mr Isidro Fainé Casas	Repsol, S.A.	First Deputy Chairman
Mr Isidro Fainé Casas	Banco BPI	Director
Mr Isidro Fainé Casas	The Bank of East Asia	Director
Mr Isidro Fainé Casas	Suez Environnement Company	Director
Mr Demetrio Carceller Arce	Ebro Foods, S.A.	Deputy Chairman
Mr Demetrio Carceller Arce	Sacyr, S.A.	Deputy Chairman
Mrs Cristina Garmendia Mendizábal	Compañía de Distribución Integral Logista Holdings, S.A.	Director
Mrs Cristina Garmendia Mendizábal	Corporación Financiera Alba, S.A.	Director
Mrs Cristina Garmendia Mendizábal	Sygnis AG	Chairwoman
Mrs Benita María Ferrero-Waldner	Munich Reinsurance Co	Director

C.1.13 Indicate and, where applicable, explain whether or not the Board Regulations lay down any rules on the number of Boards on which its Directors can sit:

No

Explanation of the rules

C.1.14 Repealed section.

C.1.15 Indicate the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	7,292
Amount of rights accumulated by current Directors in issues of pensions (thousands of euros)	2,930
Amount of rights accumulated by former Directors in issues of pensions (thousands of euros)	0

C.1.16 Identify members of senior management who are not also Executive Directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Sergio Aranda Moreno	Managing Director of Latin America
Mr Carlos Ayuso Salinas	Director of Internal Auditing, Compliance and Control
Mr Antonio Basolas Tena	Managing Director of Strategy and Development
Mr José María Egea Krauel	Managing Director of Energy Planning
Mr Manuel Fernández Álvarez	Managing Director of Wholesale Energy Business
Mr José Javier Fernández Martínez	Managing Director of Global Power Generation
Mr Manuel García Cobaleda	Managing Director of Legal Services and Secretary of the Board
Mr Jordi Garcia Taberner	Managing Director of Communications and the Chairman's Office
Mr Daniel López Jordà	Managing Director of Retail Energy Business
Mr Antoni Peris Mingot	General Manager of Regulated Business
Mrs Rosa M ^a Sanz García	Managing Director of People and Resources
Total remuneration of senior management (in thousands of euros)	9,584

C.1.17 Indicate, where applicable, the members of the Board of Directors who are also members of the Boards of Directors of companies that are significant shareholders and/or companies of its group:

Name or company name of Director	Company name of significant shareholder	Position
Mr Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	Voting Secretary
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Salvador Gabarró Serra	Criteria Caixa, S.A.U.	Third Deputy Chairman
Mr Isidro Fainé Casas	Repsol, S.A.	First Deputy Chairman
Mr Isidro Fainé Casas	Criteria Caixa, S.A.U.	Chairman
Mr Isidro Fainé Casas	Caixabank, S.A.	Chairman
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Miguel Valls Maseda	Vidacaixa, S.A. de Seguros y Reaseguros	Director
Mr Emiliano López Achurra	Petroleos Del Norte, S.A. (Petronor)	Chairman

Provide details, where appropriate, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with the significant shareholders and/or in entities of its group:

Name or company name of associated Director	Name or company name of significant linked shareholder	Description of relationship
Mr Isidro Fainé Casas	Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	Chairman of the Fundació Bancaria "la Caixa"
Mr Luis Suarez de Lezo Mantilla	Repsol, S.A.	Secretary
Mr Miguel Martínez San Martín	Repsol, S.A.	CFO and Corporate Development

C.1.18 Indicate whether or not there has been any modification to the Regulations of the Board during the year:

Yes

Description of modifications

The following articles have been modified:

Article 3. Quantitative and qualitative composition.

Article 2. Interpretation and modification.

Article 4. Functions and powers of the Board of Directors.

Article 5. Powers reserved expressly for the Board of Directors.

Article 7. Specific functions concerning the Financial Statements and the Management Report.

Article 9. Meetings of the Board of Directors.

Article 10. Development of the sessions.

Article 11. Appointment of Directors.

Article 12.- Appointment of Independent Directors.

Article 13. Term of the position and co-option.

Article 14. Re-election of Directors.

Article 15. Stepping down of Directors.

Article 16. Duties of the Directors: general rules.

Article 17. Director's duty to nondisclosure.

Article 18. Noncompetition obligation.

Article 19. Use of information and corporate assets.

Article 20. Business opportunities.

Article 22. Director remuneration.

Article 24. The Deputy Chairman.

Article 26. The Secretary of the Board of Directors. Duties and appointment.

Article 29. Committees of the Board of Directors.

Article 30. The Executive Committee.

Article 31. The Appointments and Remuneration Committee.

Article 32. The Audit Committee.

Article 35. Relations with the markets.

The agreed changes were for the purpose of adapting the Articles of the Regulations to the content of Law 31/2014 of 3 December, amending the Corporate Enterprises Act to improve corporate governance. Further details on the changes carried out can be found in the report compiled by the Board of Directors and which was made available to shareholders at the Ordinary General Meeting held on 14 May 2015.

C.1.19 Indicate the procedures for the selection, appointment, re-election, assessment and removal of Directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

Procedures for the appointment, re-election, assessment and removal of Directors are set out in Articles 41 and 42 of the Articles of Association and in Articles 4, 11 to 15 and 31 of the Board of Directors' Regulations.

1. Appointment:

The General Meeting of Shareholders is competent for appointing Directors and establishing the number thereof, subject to the limits stipulated in Article 41 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, the persons to occupy these vacancies until the next General Meeting of Shareholders is held.

There is no need to be a shareholder in order to be appointed a Director.

Those persons affected by any of the situations which, pursuant to current legislation, prevent such characterisation cannot be proposed, designated or qualified as Independent Directors.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report/proposal from the Appointments and Remuneration Committee.

The proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting and the appointment decisions taken by virtue of the co-option powers legally attributed to this body must be preceded by a proposal from the Appointments and Remunerations Committee in the case of Independent Directors or a report in the case of the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record said reasons in the minutes.

2. Re-election:

Directors may exercise their post for a maximum term of three years, and may be re-elected. Directors designated through co-option shall exercise their position under the terms set out in current legislation.

The Appointments and Remuneration Committee, entrusted with evaluating the quality of the work and the dedication of the Directors proposed during the preceding mandate, must give a proposal in the case of Independent Directors and give mandatory information with regard to the remaining Directors on the proposals for the re-election of Directors which, in each case, the Board of Directors chooses to submit to the General Meeting of Shareholders.

Under no circumstances shall the Independent Directors remain in their post as such for a period of more than 12 years.

3. Assessment:

Pursuant to article 4.5 of the Board Regulations, the Board shall regularly assess its own performance, as well as that of its committees.

4. Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Executive Directors cease to perform executive duties.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

According to Article 15.4 of the Regulations of the Board of Directors, when an Independent Director resigns from his/her post prior to the termination of his/her term of office, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

C.1.20 Explain to what extent the annual assessment of the Board has led to major changes in its internal organisation and on the procedures applicable to its activities:

Description of modifications

The self-assessment of the Board of Directors has not led to any major changes in the internal organisation or with regard to the procedures applicable to its activities. In its report, the Board concludes that in 2015 it has operated with expected normality, exercising its powers in full with regard to legislation and the regulations governing organisation and performance of the Board Regulations.

C.1.20 bis Describe the evaluation process and the areas assessed by the Board of Directors with the assistance of an outsourced consultant, with regard to the diversity of its composition and powers, the performance and composition of its committees, the performance of the Chairman of the Board of Directors and the CEO of the company, and the performance and contribution of each Director.

C.1.20 ter Give a breakdown, where appropriate, of any business relations that the consultant or any group company has with the company or any group company.

C.1.21 Indicate cases in which Directors are compelled to resign.

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Executive Directors cease to perform executive duties.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.22 Repealed section.

C.1.23 Are reinforced majorities other than those applicable by law required for any type of decision?

No

Where appropriate, describe the differences.

C.1.24 Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman of the Board of Directors

No

C.1.25 Indicate whether the Chairman has a casting vote:

No

C.1.26 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

No

C.1.27 Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

No

C.1.28 Indicate whether or not the Articles of Association or the Board Regulations set out specific rules for delegation of the vote to the Board of Directors, the method of doing this and, more specifically, the maximum number of delegations that a Director can have, as well as whether or not a limitation has been set with regard to the categories in which it is possible to delegate beyond the restrictions imposed through legislation. Where appropriate, give a brief description of these rules.

According to paragraph two of Article 47 of the Articles of Association: "The directors who are unable to attend shall be entitled to confer their representation to another director, there being no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document. Under all circumstances, Non-executive Directors may only be represented by another Non-executive Director."

Furthermore, Article 10.3 of the Regulations of the Board states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, and by telegram, email, telex or telefax addressed to the Chairman's Office or the Board Secretary sufficiently in advance."

C.1.29 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present: When calculating the number, representations made without specific instructions shall be considered as attendance.

Number of Board meetings	12
Number of Board meetings without the Chairman attending	0

If the Chairman is the CEO, specify the number of meetings held without the attendance or representation of any Executive Director and under the chairmanship of the lead Independent Director.

Number of meetings	0
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Indicate the number of meetings held by the different Board committees over the year:

Number of meetings of the Executive Committee	5
Number of meetings of the Audit Committee	9
Number of meetings of the Appointments and Remuneration Committee	4

C.1.30 Indicate the number of meetings held by the Board of Directors during the year with the attendance of all its members. When calculating the number, representations made with specific instructions shall be considered as attendance:

Number of meetings with the attendance of all Directors	6
% of attendances over the total number of votes during the year	95.59

C.1.31 Indicate if the individual and consolidated annual accounts submitted for approval to the Board are certified previously:

Yes

Identify, where applicable, the person(s) who has/have certified the company's Individual and Consolidated Annual Accounts in order to be drawn up by the Board:

Name	Position
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

C.1.32 Explain, where applicable, the mechanisms established by the Board of Directors to prevent the Individual and Consolidated Annual Accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the Auditors' Report.

Article 7 of the Regulations of the Board of Directors states the following:

- "1. Once it has received the reports issued by the Economic-Financial Department and by the Audit Committee, and following pertinent clarifications, the Board of Directors shall draw up the Individual and Consolidated Annual Accounts and the Management Report, in clear and precise terms which render their content easily intelligible. The Board of Directors shall ensure that said accounts provide a true and fair view of the assets, financial position and the results of the company, pursuant to laws applicable.
2. Unless expressly stated otherwise in the minutes, it will be understood that before signing the formulation of the Annual Accounts required by law, the Board of Directors and each one of its members has been provided with the information necessary to perform this deed, and may record the exceptions it deems pertinent, where applicable.
3. The Board of Directors shall endeavour to prepare the accounts in such a way that the auditor of the company's accounts shall be unable to record qualifications. Nevertheless, if the Board of Directors considers that its criterion must be maintained, it will publicly explain the content and extent of the discrepancy."

Prior to presentation to the Audit Committee and subsequently to the Board of Directors, the company's Financial Statements are certified by the Chief Financial Officer.

By virtue of the provisions set out under Article 51 bis of the Articles of Association, the Audit Committee is responsible, *inter alia*, for informing the General Meeting of Shareholders on issues with regard to those matters for which the committee holds terms of reference and, more specifically, on the results of the audit, explaining how this has contributed to the integrity of the financial reporting and the function that the committee has performed in that process. It is also responsible for supervising the process of compiling and presenting the mandatory financial information and submitted recommendations or proposals to the governing body, targeted at safeguarding its integrity.

The company's Board of Directors has also commissioned the Audit Committee with ensuring that the Board of Directors submits the financial statements to the General Meeting of Shareholders without any limitations or qualifications in the Audit Report. Furthermore, in exceptional cases where there are qualifications, both the Chairman of the committee as well as the auditors shall explain the content and scope of these limitations to the shareholders.

C.1.33 Is the Secretary of the Board a Director?

No

If the Secretary does not hold the status of Director, fill in the following table:

Name or company name of the Secretary	Representative
Mr Manuel García Cobaleda	

C.1.34 Repealed section.

C.1.35 Indicate, where applicable, the specific mechanisms established by the company to safeguard the independence of the external auditors, financial analysts, investment banks and ratings agencies.

The legal functions that correspond to the Audit Committee include the function of establishing the appropriate relationships with the external auditor to receive information on those issues that could jeopardise their independence, to be scrutinised by the committee, and any others related to the accounts auditing procedure. Furthermore, its functions include the authorisation of services other than those that are banned, under the terms set out in Article 5, section 4, and 6.2.b) of Regulation (EU) 537/2014 of 16 April, and the provisions set out in section 3, chapter IV, heading I, Law 22/2015 of 20 July, on Accounts Auditing, concerning the structure of independence, as well as those other communications set out in accounts auditing legislation and audit standards. Under all circumstances, every year the committee must receive the declaration of the auditor's independence with regard to the entity or entities directly or indirectly related to the company, as well as detailed and individualised information on any additional services rendered and the corresponding fees received by the external auditor or by the persons or entities related to this party, pursuant to the provisions set down in accounts auditing regulations.

Every year, before issuing the Audit Report, the Audit Committee is asked to provide an accounts auditing report that gives an opinion on the independence of the accounts auditors or audit firm. In all cases, this report must contain a reasoned assessment of the provision of each and every one of the additional services referred to above, considered on an individual basis and as a whole, separate from the legal auditing and with regard to the structure of independence or with regard to accounts auditing regulations.

Furthermore, the Board of Directors has commissioned the Audit Committee, *inter alia*, with the following duties: to ensure that the remuneration of the external auditor does not compromise its quality or independence, and to make sure that the company and the external auditor respect the standards in force concerning services other than audit services, the limits governing the business concentration of the auditor and, in general, other standards governing the independence of auditors.

Article 6.4 of the Board Regulations sets out that "The Board of Directors shall hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost."

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.36 Specify whether the company has changed of external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

No

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

C.1.37 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of tasks other than auditing activities (thousands of euros)	0	22	22
Amount of tasks other than auditing/Total amount billed by the audit company (in %)	0	0.5	0.5

C.1.38 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

No

C.1.39 Indicate how many years the current audit company has been auditing, without interruption, the annual accounts of the company and/or its group. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Company	Group
Number of years without interruption	25	25
Number of years audited by the current audit firm/Number of years the company has been audited (in %)	100	100

C.1.40 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes

Details of the procedure

Article 21 of the Regulations of the Board of Directors states: "1. Directors shall have access, through the Chairman, and, as the case may be, through the Secretary, to all the company's services, and shall be entitled to collect, with unlimited powers, any information or assessment they may require regarding any aspect of the company. The right of information also applies to the subsidiaries and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the pertinent committees of the Board, furnishing him/her with the information directly, offering him/her the appropriate agents or taking any measures required for the requested analysis. 2. In accordance with internal regulations, Directors are entitled to propose to the Board that external advisors be hired at the company's expense (legal, accounting, technical, financial, commercial advisors or of any other kind), advisors they consider necessary for the company's interests, to provide assistance in their duties when faced with specific problems of some relevance and complexity associated with their duties. 3. The Chairman of the company shall have to be notified of the request for access and the proposal referred to in numbers 1 and 2 of this article through the Secretary of the Board of Directors. The Board of Directors may veto the approval of the proposal referred to in section 2 of this Article on the grounds of its non-necessity for the performance of the duties commissioned, either because of the amount -disproportionate with regard to the importance of the problem and of the company's assets and revenue- or because of the possibility of this technical assistance being appropriately given by experts and specialists of the company itself."

C.1.41 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare the meetings of the Boards of Directors with sufficient time:

Yes

Details of the procedure

Article 9, points 2 and 3, of the Board Regulations establishes:

2. Ordinary meetings shall be convened by the Chairman, or by the Secretary or Assistant Secretary following the order of the Chairman, through any of the channels set out in the Articles of Association, including by email, provided the recipient Director has given his/her address in said mail. The notification shall include the place and the agenda of said meeting and shall be issued, barring exceptional cases, at least 48 hours before the meeting is to be held. Prior to each meeting, the Directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not. The Chairman shall be authorised to establish the agenda, except in the event of the compulsory convening set out in paragraph 1 above, in which case the agenda of the convened meeting shall include the matters set by the Directors who request it. The Board meeting shall be quorate, without being previously convened, if all the Directors are present or represented and unanimously accept that the Board meeting be held. The sessions of the Board of Directors shall usually take place at the registered address, but they may also be held at any other venue determined by the Chairman and specified in the call to meeting. The Board session may also be held in several rooms simultaneously, providing that audio-visual or telephone means guarantee the interactivity or intercommunication between these rooms in real time and, therefore, the unity of the act. In this event, the system of connection shall be referred to in the call to meeting along with, where applicable, the venues where the technical means required to attend and take part in the meeting are available. The agreement shall be considered as adopted at the site where the Chairmanship is located.

Together with the call to meeting, it is standard practice to send members of the Board of Directors all the information that may be useful for learning the items on the agenda for the Board meeting.

Moreover, during the meeting and subsequent to the same, Directors may request any information or clarification they deem appropriate with regard to the items dealt with at the session.

C.1.42 Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the company's credit and reputation:

Yes

Explain the rules

Pursuant to article 16.3, c) of the Board Regulations, the Director is subject to the duty to loyalty under the terms set out in current legislation. More specifically, the Director shall notify the company of any kind of judicial or administrative claim or event of any kind in which he/she is involved and which, because of its importance, could seriously impact the company's reputation. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Executive Directors cease to perform executive duties.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

C.1.43 Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 213 of the Corporate Enterprises Act:

Yes

Director's name	Criminal case	Observations
Mr Demetrio Carceller Arce	214/2009	

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.

Yes

Decision taken/action taken	Reasoned explanation
The Board of Directors examined the acts attributed to Mr Carceller by means of a brief sent by the aforesaid Director and decided not to take any action.	The Board took into account the presumption of innocence which should be applied to any person facing charges and the fact that the alleged facts are limited to Mr Carceller's family affairs.

C.1.44 Detail the major agreements entered into by the company and which remain in force, are modified or conclude in the event of a change of control of the company based on the takeover, and the effects of these agreements.

The Industrial Action Agreement between Repsol, S.A. and Gas Natural SDG, S.A., reported as a relevant fact through the National Securities Market Commission on 29 April 2005, considered any change to the controlling structure of either party as grounds for termination, as at 31 December 2015.

An important part of the investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of Gas Natural Fenosa.

Furthermore, the majority of the outstanding debt, which includes a change of control clause, whether through acquisition of more than 50% of the voting shares or through obtaining the right to appoint the majority of Board Members of Gas Natural SDG, S.A., is subject to additional conditions such as the major reduction of the credit rating caused by the change of control; material damage to the creditor; an adverse material change affecting solvency or the capacity to fulfil the contract. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination. Some clauses provide for the arrangement of guarantees as an alternative to repayment.

More specifically, the bonds issued, with an approximate value of 12 billion euros (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of three full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Ratings Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an approximate amount of 3 billion euros, which could be the object of early repayment in the event of a change of control. Part of that amount refers to the refinancing taken out to acquire Unión Fenosa. All loans have special repayment periods that are longer than those in the cases of early repayment.

Most of the change of control clauses are dependent upon damages being caused for creditors or there being important falls in rating. In most of them, the change of control is excluded if any of the current shareholders owns important shareholdings in the company jointly with a third party. Some contracts include the arrangement of guarantees as an alternative to repayment.

C.1.45 Provide an aggregate list or give a detailed indication of the agreements between the company and its positions of administration and management or employees and which provide for compensation payments, guarantee or protection clauses, when these people resign or are dismissed unfairly, or whether the contractual relationship comes to a conclusion as a consequence of a takeover or other kind of operation.

Number of beneficiaries 24

Beneficiary type	Description of agreement
Management Committee and other executives	<p>The CEO's contract establishes compensation for an amount of three years' total pay for certain cases of extinction of the contractual relationship: at the decision of the company, except for very serious cases of misconduct which cause serious damages to the interests of the company or by a decision made by the CEO, provided the termination of the business relationship is caused by a series of circumstances which are classified and agreed by contract (serious corporate breach, depletion or substantial reduction of functions, substantial modification of contractual conditions or relevant change in the entity's shareholders).</p> <p>As a post-contractual non-competition agreement, compensation is also established amounting to a full year of total remuneration. The post-contractual non-competition agreement has a duration of one year.</p> <p>The contracts signed with members of the Management Committee contain a clause that establishes minimum compensation of two years' pay in certain cases of extinguishing the relationship, unless the extinction is caused by a unilateral decision of the Director that does not fall within the grounds for termination set out under Articles 40, 41 or 50 of the Workers' Statute or in cases in which the dismissal is declared admissible, in which case there shall be no right to any compensation whatsoever. Furthermore, the contracts signed with members of the Management Committee and the Director of Internal Auditing contain a clause that establishes compensation equivalent to one year's fixed remuneration for post-contractual noncompetition for a period of two years.</p> <p>In addition, there are compensation agreements with a further 17 Directors, equivalent to one year's fixed remuneration for post-contractual noncompetition for a two-year period. Furthermore, 13 of these Directors have compensation agreements that entitle them to receive minimum compensation of one year's pay in certain cases of extinction of the relationship, unless the extinction is caused by a unilateral decision of the Director that does not fall within the grounds for termination set out under Articles 40, 41 or 50 of the Workers' Statute or in cases in which the dismissal is declared admissible, in which case there shall be no right to any compensation whatsoever.</p>

Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

	Board of Directors	General Meeting
Body that authorises the clauses	Yes	No
Is the General Meeting informed of the clauses?		Yes

C.2 Committees of the Board of Directors.

C.2.1 Detail all the committees of the Board of Directors, their members and the proportion of Executive, Proprietary, Independent and other external Directors that sit on these committees:

Executive Committee

Nombre	Position	Type
Mr Salvador Gabarró Serra	Chairman	Executive Director
Mr Rafael Villaseca Marco	Board Member	Executive Director
Mr Ramón Adell Ramón	Board Member	Independent Director
Mr Enrique Alcántara-García Irazoqui	Board Member	Proprietary Director
Mr Demetrio Carceller Arce	Board Member	Proprietary Director
Mr Emiliano López Achurra	Board Member	Independent Director
Mr Miguel Martínez San Martín	Board Member	Proprietary Director
Mr Juan Rosell Lastortras	Board Member	Proprietary Director

% of Executive Directors	25
% of Proprietary Directors	50
% of Independent Directors	25
% of other external Directors	–

Explain the functions attributed to this committee; describe the procedures and rules of organisation and performance of the same; and summarise its most important actions over the year.

a) Functions of the Executive Committee:

The Executive Committee has the following functions:

Matters that ordinarily could not be delegated, but which may be adopted by the Executive Committee or by the CEO(s), on duly justified grounds of emergency and which must be ratified at the first Board of Directors held following the adoption of the decision:

- a) The approval of the strategic business plan, management objectives and annual budgets, the annual financing plan, the investments and financing policy, the corporate social responsibility policy and the dividends policy.
- b) The determination of the risk management and control policy, including tax risks, and supervision of the internal reporting and control systems.
- c) The determination of the corporate governance policy of the company and of the group of which it is the controlling company; its organisation and performance and, more specifically, the approval and modification of its own regulations.
- d) Approval of the financial reporting which, due to its status as a listed company, it has to publish on a regular basis.
- e) Definition of the structure of the group of companies of which is the company is the parent.
- f) The approval of all kinds of investments or operations which, due to the amount or special characteristics, are of a strategic or special tax risk nature, unless approval falls to the General Meeting.
- g) The approval of the creation or acquisition of shares in entities with special purposes or domiciled in countries or territories that are considered tax havens, as well as whatsoever other similar transactions or operations which, owing to its complexity, could undermine the transparency of the company and its group.
- h) The approval, following a report from the Audit Committee, of the operations that the company or companies of its group carry out with Directors, under the terms set out in current legislation, or with shareholders that own, either individually or together with others, a significant share, including shareholders represented on the company's Board of Directors or the Board of other companies that form part of the same group or with related parties.
- i) The determination of the company's tax strategy.

Matters in which the agreements may be adopted, indiscriminately, by the Board of Directors or by the Executive Committee:

- a) The definition of the general structure of delegations and empowerments.
- b) The incorporation of new companies or entities or changes to the shareholding in existing companies.
- c) The approval of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the group companies are interested.
- d) The disposal of capital shares in companies or other fixed assets by any of the group companies.
- e) The approval of investment projects to be carried out by any group company.
- f) The approval of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by any of the group companies.
- g) The approval of financial transactions to be carried out by any group company that are not included in the Annual Financial Plan.
- h) The awarding of guarantees by companies belonging to the group to guarantee the obligations of entities that do not belong to said group or which, belonging to the said group, have external shareholders.
- i) The transfer of rights over the trade name and trademarks, as well as patents, technology and any other type of industrial property belonging to any group company.
- j) The approval of the appointment and dismissal of the patrons and posts held in the Gas Natural Foundation and of the individual representatives of Gas Natural SDG, S.A. in the cases in which said company holds the post of administrator in another company. Approval of contribution to patronage activities.
- k) The signing of commercial, industrial or financial agreements of relevant or strategic importance for the group and which represent a modification, change or review of the current Strategic Plan or Annual Budget.

As regards the matters considered under letters b), c), d), e), g), h) and i), approval from the Board of Directors or the Executive Committee shall be required in those agreements which, because of their nature or amount, are of particular relevance for the group. Transactions involving amounts of more than 15 million euros shall be understood as relevant, except in letters h) and i), where the figure stands at 5 million euros and letter j), with a relevance threshold of 200,000 euros.

Unless a different regime is approved on adopting the corresponding agreement, it shall be considered that an investment or transaction does not require additional approval when the execution of this leads to a deviation, if this is no greater than 10% or 15 million euros over the amount authorised by the Board or, where appropriate, by the Executive Committee.

Whenever compulsory, resolutions of the Board of Directors and the Executive Committee shall be adopted following a report from the competent committee.

b) Organisation and performance procedures and rules:

The Executive Committee shall comprise the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of these regulations and in the same proportion as exists on the Board of Directors. The appointment of the members of the Executive Committee shall require an affirmative vote from at least two thirds of the Board Members.

The Chairman of the Board of Directors shall act as Chairman of the Executive Committee and the Secretary of the Board of Directors shall undertake the secretariat and may be assisted by the Assistant Secretary.

The Executive Committee shall be understood to be quorate when more than half of its members attend the meeting in person or through a representative.

The members of the Executive Committee shall leave their post when they do so in their capacity as Directors or as agreed by the Board. The positions that become available shall be covered promptly by the Board of Directors.

The permanent delegation of powers by the Board of Directors in favour of the Executive Committee shall encompass all powers of the Board, except those which legally or statutorily cannot be delegated or those that cannot be delegated by virtue of the provisions set out in these regulations.

The Executive Committee, convened by its Chairman, shall hold meetings whenever its Chairman considers it necessary or upon request of one third of its members. The Secretary will take the minutes of the agreements adopted in the meeting and these will be outlined in the following plenary meeting of the Board of Directors.

For cases in which, in the opinion of the Chairman or of the majority of members of the Executive Committee, the importance of the issue so requires, the agreements adopted by the committee shall be submitted for ratification by the plenary Board meeting.

The same shall be applicable in relation to issues the Board has submitted for examination to the Executive Committee and the Board has the final decision.

In any other case, the agreements adopted by the Executive Committee shall be valid and binding, without the need for subsequent ratification from the full Board meeting. This is without prejudice to the provisions set out in article 5 of these regulations.

The provisions set out in these regulations for the operation of the Board of Directors shall be applicable to the Executive Committee to the full extent possible.

c) Most important actions during 2015:

In the exercise of its powers during the year, the committee has analysed, reported and/or adopted agreements with regard, *inter alia*, the following matters:

- > The quality and efficiency of its performance.
- > Several investment proposals.
- > Financial transactions.
- > Status reports.

Indicate whether the makeup of the Delegated or Executive Committee reflects the participation on the Board by the various Directors depending on their category:

Yes

Audit committee

Name	Position	Type
Mr Ramón Adell Ramón	Chairman	Independent Director
Mr Francisco Belil Creixell	Board Member	Independent Director
Mr Luis Suárez de Lezo Mantilla	Board Member	Proprietary Director
% of Proprietary Directors		33
% of Independent Directors		67
% of other external Directors		–

Explain the functions attributed to this committee; describe the procedures and rules of organisation and performance of the same; and summarise its most important actions over the year.

a) Functions of the Audit Committee:

The committee has the powers set out in law and those that are assigned by the Board of Directors, either in general or for a specific purpose.

The Board of Directors has assigned it with the following functions:

- > Drawing up the report on the auditor's independence.
- > Drawing up the report on performance of the Audit Committee.
- > Drawing up the report on related-party transactions.
- > Drawing up the report on corporate social responsibility policy.
- > Ensuring that the Board of Directors seeks to present the accounts to the General Meeting of Shareholders without reservation or exception in the audit report and, in whatsoever exceptional case, both the Chairman of the Audit Committee and the auditors should clearly explain to shareholders the content and scope of said reservations or exceptions.
- > In relation to the control and reporting systems:
 - a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
 - b) Ensuring independence of the unit that assumes the internal audit function; approving the work plans and guidelines, making sure that its activities are mainly focused on relevant risks for the company; receiving periodic information on its activities; and verifying that senior management take into consideration the conclusions and recommendations of its reports. Making proposals to the Chairman of the Board of Directors with regard to the selection, appointment, re-election and removal from office of the party responsible for the internal audit service, and proposing the budget for that service. The final decision lies with the Chairman of the Board of Directors.
 - c) Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous.

- > In relation to the external auditor:
 - a) In the case of the resignation of the external auditor, examining the circumstances leading to the said resignation.
 - b) Ensuring that the remuneration of the external auditor does not compromise its quality or its independence.
 - c) The company should report the change of auditor to the National Securities Market Commission (CNMV) as a relevant event and accompany said report with the declaration on the existence of disagreements with the departing auditor and, where applicable, the corresponding content.
 - d) Ensuring that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and the evolution of the accounting situation and of the company's risks.
 - e) Ensuring that the company and the external auditor observe current standards on the provision of services other than auditing services, the limits to the auditor's business concentration and, in general, the other standards established to guarantee the independence of auditors.
- > Calling any of the company's employees or managers, and also have them appear without the presence of any other executive.
- > Analysing and reporting to the Board of Directors with regard to the economic conditions and the accounting impact and, more particularly, where appropriate, on the exchange ratio, with regard to structural and corporate modification operations which, because of their nature or amount, are of particular relevance. Transactions shall be considered to have such relevance when the net value exceeds 25% of the assets shown on the last approved balance sheet of the company.
- > With regard to supervision of compliance with the corporate governance rules, the codes of conduct and the corporate social responsibility policy.
 - a) The supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.
 - b) The supervision of the communication strategy and relations with shareholders and investors, including the small and medium shareholders.
 - c) Regular assessment of the appropriateness of the company's corporate government system, to ensure that it complies with its mission of fostering social interest and takes into consideration, as appropriate, the legitimate interests of remaining stakeholders.
 - d) The review of the company's corporate responsibility policy, ensuring this is focused on the creation of value.
 - e) The monitoring of the corporate social responsibility strategy and practices, and assessment of its level of compliance.
 - f) The supervision and assessment of relationship processes with the different stakeholders.
 - g) The assessment of everything concerning non-financial risks of the company -including operational, technological, legal, social, environmental, political and reputational risks.
 - h) The coordination of the system for reporting on non-financial information and diversity, pursuant to the applicable regulations and the international benchmark standards.

b) Organisation and performance procedures and rules

The Audit Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the Non-executive Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

At least two of the committee members shall be Independent Directors, and the Board of Directors shall elect one of these to be Chairman of the committee, and this person shall not have the casting vote. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports or proposals or when deemed appropriate by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The meeting shall be called with prior notice of at least two days before the meeting date, except in certain defined circumstances. The meetings shall normally take place at the registered office. The committee may invite to its meetings any executive or employee it deems appropriate.

c) Most important actions during 2015:

In the exercise of its powers during the year, the committee has reported and/or adopted proposals with regard to, *inter alia*, the following matters:

- > The quality and efficiency of its performance.
- > External auditing of the individual and consolidated annual accounts.
- > Financial reporting.
- > Appointment of auditors.
- > Tax situation.
- > Auditor's independence.
- > Related-party transactions.

Identify the Director of the Audit Committee that has been designated, taking into account his knowledge and experience in accounting, audit or both matters, and report on the number of years that the Chairman of this committee has held the post.

Name of the Director with experience	Mr Ramón Adell Ramón
Number of years the Chairman has held the post	1

Appointments and remuneration committee

Nombre	Cargo	Categoría
Mr Miguel Valls Maseda	Chairman	Independent Director
Mr Antonio Brufau Niubó	Board Member	Proprietary Director
Mrs Cristina Garmendia Mendizábal	Board Member	Independent Director

% of Proprietary Directors	33
% of Independent Directors	67
% of other external Directors	–

Explain the functions attributed to this committee; describe the procedures and rules of organisation and performance of the same; and summarise its most important actions over the year.

a) Functions of the Appointments and Remuneration Committee:

The committee has the powers set out in law and those that are assigned by the Board of Directors, either in general or for a specific purpose.

The Board of Directors has assigned it with the following functions:

- > Drawing up the report on performance of the Appointments and Remuneration Committee.
- > Verifying the policy for selecting Directors and reporting this in the Annual Corporate Governance Report.
- > Through delegation to be conferred by the Chairman of the Board, organising and coordinating the regular assessment of the Board and that of the company's CEO.
- > Drawing up the report on the performance of the Board of Directors.
- > Proposing to the Board of Directors the basic conditions for the contracts of senior executives.
- > Ensuring observance of the remuneration policy laid down by the company.
- > Performing a regular review of the remuneration policy applied to Directors and senior executives, including the share option system and the application of this, as well as ensuring that their individual remuneration is proportionate to that paid to other Directors and senior executives of the company.
- > Ensuring that any possible conflicts of interest do not jeopardise the independence of the external advice received by the committee.
- > Verifying the information on remuneration of directors and senior executives contained in the different corporate documents, including the annual report on remuneration to Directors.

b) Organisation and performance procedures and rules:

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five Directors, designated by the Board of Directors from among the Non-executive Directors, bearing in mind their experience and aptitude. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

At least two of the Appointments and Remuneration Committee members shall be Independent Directors, and the Board of Directors shall elect one of these to be Chairman of the Committee, and this person shall not have the casting vote. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee, convened by its Chairman, shall meet as often as required to issue the reports or proposals for which it is responsible or which its Chairman deems appropriate, or on request from two of its members. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. The meetings shall normally take place at the registered office. The committee may invite to its meetings any executive or employee it deems appropriate.

c) Most important actions during 2015:

In the exercise of its powers during the year, the committee has reported and/or adopted proposals with regard to, *inter alia*, the following matters:

- > The annual report on remuneration to Directors.
- > The level of compliance with group targets.
- > Employees' remuneration.
- > Remuneration to Directors policy.
- > The quality and efficiency of its performance.
- > Related-party transactions.
- > Re-election, ratification or appointment of Directors.
- > Appointment of CEOs.

C.2.2 Complete the following table with information on the number of female Directors that have made up the committees of the Board of Directors over the last four years:

	Number of female Directors			
	Financial year t Number (%)	Financial year t-1 Number (%)	Financial year t-2 Number (%)	Financial year t-3 Number (%)
Executive Committee	0	0	0	0
Audit Committee	0	0	0	0
Appointments and Remuneration Committee	33	0	0	0

C.2.3 Repealed section.

C.2.4 Repealed section.

C.2.5 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Board Regulations of Gas Natural SDG, S.A. and of its Committees.

Both documents are published on the company's website (www.gasnaturalfenosa.com) >Shareholders and Investors >Corporate Governance >Corporate Governance Regulations.

During 2015, the following articles related to these committees were modified: Articles of Association (Article 51: Composition of the Executive Committee, Article 51 bis: Audit Committee and Article 51 ter: Appointments and Remuneration Committee) Board Regulations (Article 5 Powers reserved expressly to the Board of Directors, Article 29. Committees of the Board of Directors, Article 30. The Executive Committee, Article 31. The Appointments and Remuneration Committee, and Article 32. The Audit Committee).

The Executive Committee, the Audit Committee and the Appointments and Remuneration Committee have all drawn up a report on the quality and efficacy of their performance over the previous year.

C.2.6 Repealed section.

D. Related-Party Transactions and Intra-Group Transactions

D.1 Explain, where appropriate, the procedure for approval of transactions with related parties and intragroup parties.

Procedure for approval of related-party transactions

In accordance with Article 5.II of the Board Regulations, among the powers of the Board that cannot be delegated but which may be adopted by the Executive Committee or by the CEO(s) on duly justified grounds of urgency and which must be ratified at the first Board of Directors held after the adoption of the decision, is the approval, following a report from the Audit Committee, of transactions that the company or group companies carry out with Directors, under the terms set out in current legislation or with shareholders that own, either individually or together with others, a significant shareholding. This includes shareholders that are represented on the Board of Directors of the company or of other companies that form part of the same group or with related parties.

For its part, Article 6.5 of the Board Regulations stated that the Board of Directors shall include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders (overall volume of transactions and the nature of the most significant), so that other shareholders may be informed of their scope and importance.

At its session held on 30 September 2011, the Board of Directors, following a favourable report from the Appointments and Remuneration Committee, agreed to give across-the-board authorisation to related-party transactions concerning purchase of the polyethylene network of Repsol Butano, S.A. carried out under normal market conditions. Said authorisation is exercised by the Managing Director of Retail Energy Business.

On 25 May 2012, following a favourable report from the Appointments and Remuneration Committee, the Board of Directors granted across-the-board authorisation for the ordinary transactions carried out under market conditions with Caixabank, S.A. or with any entity belonging to "la Caixa" Group concerning: the opening of current bank accounts, temporary financial investments generated through cash surplus from current operations, management of bills presented for payment, different payments concerning habitual operations (payroll, taxes, Social Security, suppliers and others of a similar nature), issue of VISA and the like, sale and purchase of currency in cash or futures with payment in advance and collection of approved foreign currency invoices, confirmation of documentary letters of credit, procurement of interest rate derivatives, as well as ISDA and CMOF (Framework Contracts for Financial Transactions) contracts, and any others of a similar nature that cover all or any of the foregoing operations. Said authorisation is exercised by the Chief Financial Officer.

D.2 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or group entities and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or entity of the group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Charged interest	3,488
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Interests earned but not paid	44
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Contributions to pension plans and life insurance	28,705
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Reception of services	14,009
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Paid interest	1,947
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Interests earned but not collected	93
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Provision of services	561
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: others	779,317
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Sales of intangible fixed assets	458,355
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: loans	205,384
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Guarantees	201,667
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Management contracts	1,053,762
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	311,716
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	5,148
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Procurement of manufactured goods or not	292,762
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	374
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (whether or not finished)	878,022
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Purchases of tangible fixed assets	74,209
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	273,873

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or group entities and the company's administrators or executives:

Name or company name of the administrators or executives	Name or company name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)
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D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the Consolidated Financial Statements and are not part of the company's usual trading in terms of its purpose and conditions:

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company name of the group entity	Brief description of the operation	Amount (thousands of euros)
Global Power Generation, S.A.	Dividends received from Buenergía Gas & Power, Ltd.	39,037
Buenergía Gas & Power, Ltd.	Dividends received from EcoEléctrica Holding, Ltd.	51,886
Ecoeléctrica Holding, Ltd.	Dividends received from Ecoeléctrica, L.P. and Ecoeléctrica Limited and paid to Buenergía Gas & Power, Ltd.	51,886
Ecoeléctrica, Ltd.	Dividends received from Ecoeléctrica, L.P. and paid to Ecoeléctrica Holding, Ltd.	519

D.5 Indicate the amount of the transactions performed with other related parties.

0 (in thousands of euros)

D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, executives or significant shareholders.

1. Directors:

Pursuant to the Board Regulations:

The Director is subject to the duty of loyalty under the terms set out in current legislation, and in particular:

- The Director must refrain from taking part in the deliberation and voting on agreements and decisions in which either he or a related party have a direct or indirect conflict of interest. The foregoing obligation to refrain does not include agreements or decisions that affect the Director in his status as administrator, such as his designation or revocation for positions on the governing body or other similar types.
- The Director must also adopt the measures required so as not to incur situations in which their interests, whether for themselves or on behalf of third parties, could come into conflict with the corporate interests and their duties with the company.
- In his/her capacity as loyal representative of the company, the Director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a significant holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A. and investee companies.
- The Director must notify the company of any significant changes in their professional situation that could affect the character or category in which they have been classified.
- The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.

The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

The Directors shall refrain from performing activities on their own behalf or on behalf of other parties that could represent competition, whether current or potential, with the company or which otherwise places them in a permanent conflict of interest with the company. More specifically, Directors may not hold, themselves or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Gas Natural SDG S.A. or any company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Gas Natural SDG, S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Gas Natural SDG, S.A.

2. Directors and executives:

Section 6 of the Internal Code of Conduct, for issues relating to the Securities Markets of Gas Natural SDG, S.A., contains the information that the Directors and executives of the entity must provide concerning conflicts of interest:

"6.1. The persons included in the subjective scope of this Internal Code of Conduct shall be obliged to inform the Secretary of the Board of Directors of Gas Natural SDG, S.A. of any possible conflicts of interest that may emerge with the corporate relationships in which they hold an interest or with the ownership of their personal or family assets or any other cause that may interfere in the fulfilment of activities which are the object of these regulations.

In the case of there being a doubt over the existence of a conflict of interest, the obliged persons must consult the Secretary of the Board of Directors of Gas Natural SDG, S.A. who shall resolve the issue in writing. The Secretary may take the matter to the Appointments and Remuneration Committee if he/she considers it to be of particular significance.

The persons affected by potential conflicts of interest must keep the information up to date, reporting any modification or closure of the previously communicated situations.

6.2. The affected persons must refrain from participating in the adoption of any kind of decision that could be affected by the conflict of interests with the company...".

3. Significant shareholders:

The Board of Directors is responsible for the approval, following a report from the corresponding committee, of the operations that the company or companies of its group carry out with Directors, under the terms set out in current legislation, or with shareholders that own, either individually or together with others, a significant share. This includes shareholders represented on the company's Board of Directors or the Board of other companies that form part of the same group or with related parties.

D.7 Is there more than one listed company in the group in Spain?

No

E. Risk Control and Management System

E.1 Explaining the scope of the company's Risk Management System, including tax risks.

The Risk Management System works as an integral and ongoing system, consolidating the management by business or activity unit or area, geographical zones and support areas (i.e. human resources, marketing or management control) at corporate level, quantifying the impact of the main risk factors and guaranteeing uniformity in the criteria used to measure these risks.

The aim is to anticipate potential deviations with regard to global targets and to ensure that the taking of decisions considers an appropriate and known balance between risk and profitability, both from the viewpoint of marginal contribution to the global portfolio as well as from an individual viewpoint of each one of the businesses.

The aim of risk management at Gas Natural Fenosa is to ensure predictability and sustainability in the company's operational and financial performance.

E.2 Identify the company bodies responsible for preparing and executing the Risk Management System, including the tax risk.

Audit and Control Committee

This is the supreme body in charge of the efficacy of internal control and of the company's risk management systems. It checks that these systems identify the different kinds of risks and the measures introduced to mitigate said risks and to tackle them in the event that effective damages materialise.

Risk Committee

This is responsible for determining and reviewing the objective Risk Profile of the company. It guarantees alignment of this profile with the strategic position of the same and oversees the interests of its stakeholders. It also guarantees that the entire organisation understands and accepts its responsibility in identifying, assessing and managing the most significant risks.

Risk Department

This division reports to the Economic-Financial Department, which enables it to have a corporate overview required for the performance of its duties, without prejudice to having specific units for the management of Wholesale and Retail Businesses Risks, in close contact with the business units that bear the highest exposure to the risk because of their profile and turnover.

The work of the company's Risk Department focuses on objectifying exposure to uncertainties and internalising risk exposure levels in decision-taking processes of senior management, as an instrument to efficiently select returns. It is in charge of coordinating the different agents involved in risk management. Monitoring and assessing risk exposure in an integrated approach, and controlling overall exposure to it, allows efficiency in decision-making to be underpinned, making it possible to optimise the risk-return binomial.

The Risk Department oversees maintenance of the global risk profile, as well as measurement and recurrent control of the risk.

Businesses

These are the parties responsible for risk management and spheres of action. It identifies trends and positions that could entail risk and reports these to the Risk Department, applying the management criteria and guidelines given by this department.

One of the key concepts to risk management is the concept of risk profile, understood as the level of exposure to the uncertainty resulting from the joint effect of the various categories of risk classified by Gas Natural Fenosa.

Other corporate areas

These are responsible for monitoring and managing certain risks, due to their specific nature and the peculiarities of the management mechanisms. Of particular note here is the Environment and Quality Assurance Unit, responsible for the environmental risk and climate change, and the Reputation and Sustainability Unit, which is responsible for the reputational risk. These operate in coordination with the Risk Department.

E.3 Specify the main risks, including tax risks, that could prevent business objectives from being reached.

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges.
Electricity price	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park
Gas volume	Gap between gas offer and demand.	Optimisation of contracts and invoices. Trading.
Electricity volume	Reduction in available thermal gap.	Optimisation of commercialisation-generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates	Volatility in international currency markets.	Geographical and macroeconomic diversification through inflation rates. Hedges through financing in local currency and derivatives.
Interest rates and a credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Credit risk		
Credit	Potential increase in default, dependent on recovery in Spain.	Analysis of customer solvency. To define specific contractual conditions. Collection process. Systematisation of calculation of economic capital.
Operational risk		
Operational: image and reputation	Deterioration in perception of Gas Natural Fenosa by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable	Accidents, damages or non-availabilities in assets of Gas Natural Fenosa.	Ongoing improvement plans. Optimisation of total cost of risk.
Operational: environment	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Participation in Clean Development Mechanisms. Frequent communication with regulatory bodies.

E.4 Specify whether the entity has a level of risk tolerance, including tax risk.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Department to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Department's responsibility to assess the risks identified, based on:

- a) Risk position: definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity of the risk occurring.
- d) Probability of risk occurring.
- e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Specify which risks, including tax risks, have materialised over the financial year.

The main risk that has materialised over the year is related to tensions in the prices of natural gas as a consequence of the uncertainty surrounding the worldwide energy balance. In addition, in the second half of the year there was also the depreciation of Latin America currencies as a result of uncertainty concerning the medium-term growth potential of emerging economies.

However, the risk control mechanisms have enabled us to keep the impact within the company's tolerance range, defined through the risk limits in force.

E.6 Explain the response and supervision plans for the entity's main risks, including the tax risks.

The risks susceptible to affecting the performance of Gas Natural Fenosa are set out in the company's Risk Map. Said map is the main means of communication to the Audit and Control Committee in its duties to supervise the entity's risks.

On a more operational level, the Risk Department and other specific areas (Regulation, Environment, Production) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F. Internal Control System and Management of Risks with Regard to the Financial Information Reporting Process (SCIIF)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (SCIIF).

F.1 The entity's control environment

Report on, duly detailing their main characteristics, at least:

F1.1 Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective SCIIF; (ii) its introduction; and (iii) its supervision.

Gas Natural Fenosa has defined its Internal Control System on Financial Reporting (hereinafter SCIIF) in the "Internal Control System on Financial Reporting (SCIIF) General Standard of Gas Natural Fenosa".

As part of the SCIIF, Gas Natural Fenosa has defined, in the foregoing General Standard, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: the Board is responsible for the existence of an appropriate and efficient SCIIF, the supervision of which falls to the Audit Committee.

Article 5, section II of the Board Regulations of Gas Natural SDG, S.A. and of its Committees sets out that determination of the risk management and control policy, including tax risks, and supervision of the internal reporting and control systems is, *inter alia*, a matter that cannot usually be delegated by the Board of Directors.

- Audit Committee: among other tasks, this committee is responsible for supervision of the SCIIF. Article 32, section 2 of the Board Regulations sets out that the committee has the powers specified under Law, as well as those that are commissioned by the Board of Directors, either of a general or specific nature. Thus, Article 529 quaterdecies of the Corporate Enterprises Act states in section 4.b) that the Audit Committee shall be responsible for supervising the efficacy of the company's internal control, internal audit and the risk management system, including tax risk, as well as discussing with the accounts auditor any significant weaknesses detected in the internal control system during the audit. More specifically and with regard to the reporting and control systems, the Audit Committee is responsible for supervising the process of preparation and the integrity of the financial reporting concerning the company and, where appropriate, the group, reviewing compliance with the regulatory requirements, the proper delimitation of the consolidation perimeter and the proper application of accounting criteria. For the performance of some of these duties, the Audit Committee has the Internal Auditing, Compliance and Control Unit.
- Financial-Economic Department: this department is responsible for the design, introduction and operation of the SCIIF. It has the Internal Financial Control Unit to assist in the performance of this duty.
- Internal Auditing, Compliance and Control Unit. In general, it is responsible for assisting the Audit Committee in the ongoing review and improvement of the effectiveness of the Internal Control System in all areas of Gas Natural Fenosa, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the SCIIF and to the Crime Prevention Model.
- Business units and corporate units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities introduced are performed.

F1.2 Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- > **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top-tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

To ensure proper management of the group's economic-financial reporting, the Economic-Financial Department has developed, as part of the SCIF, a technical instruction comprising an interrelations map (information flows) for the financial reporting process. This map documents communications between the Economic-Financial Department, the different parties in charge of the processes and those in charge that are either the source or destination of the financial reporting. The map is called "Interrelations Map of Financial Reporting of Gas Natural Fenosa".

In this regard, there are six main areas that Gas Natural Fenosa has taken into consideration in compiling the interrelations map showing the financial reporting processes:

- (i) the information required to prepare the financial reporting;
- (ii) the parties in charge that are either the source or destination of the financial reporting and
- (iii) the distribution of tasks among the different organizational units
- (iv) the scope of this distribution to all group companies
- (v) the frequency of information transfer.
- (vi) the reporting systems that intervene in the process of compilation and issue of financial reporting;

Thus, using the Interrelations Map of Gas Natural Fenosa, the processes that have an impact on the preparation of financial reporting are clearly defined, both vis-à-vis the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting area, and those managers involved in the same.

- > **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of senior management of Gas Natural Fenosa include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Gas Natural Fenosa, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Gas Natural Fenosa has a Code of Conduct (hereinafter Code of Ethics), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of Gas Natural SDG, S.A. and for all investee companies in which Gas Natural Fenosa holds management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of Gas Natural SDG, S.A.

Since it was approved, it has been amended four times, on the last occasion in 27 June 2014, with the object of updating it and including new commitments acquired by Gas Natural Fenosa in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anticorruption Policy of Gas Natural Fenosa and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethic sets out the general ethical principles for Gas Natural Fenosa as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose (ii) scope of application (involving all members of Gas Natural Fenosa); (iii) governing criteria vis-à-vis conduct at Gas Natural Fenosa (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Gas Natural Fenosa; (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers professional responsibility and integrity to be the general governing criteria of conduct at Gas Natural Fenosa. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, viz:

- Respect for law, human rights and ethical values (Section 4.1): "Gas Natural Fenosa undertakes the commitment of acting at all times in accordance with applicable laws, with the internal Regulatory System established with internationally accepted ethical practices, with total respect towards human rights and public liberties ..."
- Processing of information and knowledge (Section 4.11):

"All employees that enter any kind of information into the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all of the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and all the transactions performed and with the income and incurred expenses.

Employees of Gas Natural Fenosa shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's accounts"

Gas Natural Fenosa has also established an Anticorruption Policy, which was approved by the Steering Committee in a meeting held on 3 March, 2014, and amended at the session of 24 November 2015, which is compulsory for all employees of all the companies which make up Gas Natural Fenosa group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of chapter 4.7. "Corruption and Bribery" of the Code of Ethics of the group and which has the object of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Gas Natural Fenosa with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

In addition, Gas Natural Fenosa has an Internal Code of Conduct in issues concerning the Securities Market, which is also approved by the company's Board of Directors.

In July 2005, Gas Natural Fenosa set up the Code of Ethics Committee with the same principle of promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive inquiries and notifications of breach of the Code of Ethics and Anticorruption Policy.

To enable the Code of Ethics Committee to carry out its duties in an objective and independent manner, it is chaired by the Internal Auditing, Compliance and Control Unit, and is made up of representatives from the different areas involved in monitoring the compliance with the Code of Ethics and Anticorruption Policy.

The committee regularly reports to senior management and reports every quarter to the Audit Committee. The nature of the committee is to provide reports and recommendations, proposing corrective actions to those units in charge of providing solutions to problems through practical application of the Code of Ethics and Anticorruption Policy, and simultaneously acting as a bridge between these units and employees.

The penalising system, in those cases where this is necessary, is established by the Human Resources Unit.

By the same token, the Code of Ethics Committee may propose updates to the code content, and has done so on several occasions. These updates are first approved by the Audit Committee before being ratified by the Board of Directors.

Local Code of Ethics Committees have also been set up to promote the dissemination and application of the code in some of the countries in which Gas Natural Fenosa is present, more specifically in Argentina, Brazil, Chile, Mexico, Colombia, Panama, Italy and Moldova.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- From outside: corporate website of Gas Natural Fenosa.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Gas Natural Fenosa have been developed, which are mandatory for all employees of Gas Natural Fenosa.

Through the Code of Ethics Committee, Gas Natural Fenosa periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anticorruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make inquiries and notifications, as well as to periodically formalise the undertaking of group employees vis-à-vis ethics and integrity.

Gas Natural Fenosa, to encourage the knowledge of the Code of Ethics among its suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Gas Natural Fenosa, and informs them of where they can find the Code of Ethics of the group, along with information in the queries channel and notifications on aspects related to the Code of Ethics.

➤ **Reporting channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, where appropriate stating whether or not this is of a confidential nature.**

Professional ethics at Gas Natural Fenosa focuses on professional responsibility and integrity, with integrity understood as ethical and honest action performed in good faith; and professional responsibility as proactive and efficient action targeted at excellence, quality and willingness to serve.

As set out in Article 32.2 of the Regulations of the Board and of its Committees, "the Audit Committee has the powers set out in Law and those that are commissioned by the Board of Directors, either of a general or specific nature". Among these powers, the Audit Committee is responsible for "setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous".

In addition, the Board of Directors in its meeting of 31 March 2006 established that notifications received through the notification procedure for non-compliance with the Code of Ethics of Gas Natural Fenosa relating to fraud, auditing or faults in accounting processes and internal control shall be directly transferred to the Audit Committee.

As a mechanism to obtain greater internal control of compliance with the principles included in the Code of Ethics, in July 2005 the Code of Ethics Committee of Gas Natural Fenosa was set up. One of its main functions is to facilitate and supervise a channel of communication to all employees, to receive inquiries and notifications concerning breaches of the code, and thus facilitate the resolution of conflicts related to application of the Code of Ethics and the Anticorruption Policy. A further duty is to send reports to the Governing Bodies of Gas Natural Fenosa on the dissemination of and compliance with the Code of Ethics and the Anticorruption Policy, as well as the activities of the committee itself.

The foregoing channel of communication is an open channel of communication (e-mail, fax, normal mail and internal mail) between the Code of Ethics Committee and all employees of Gas Natural Fenosa to deal with the issues concerning the code. This channel enables all group employees, suppliers and collaborating companies to obtain or provide information on any issue concerning the Code of Ethics and the Anticorruption Policy. Conduct contrary to the code can also be reported in good faith and in confidence to the Code of Ethics Committee. All of this is outside of the hierarchy governing habitual operations performed by employees.

All communications between the Code of Ethics Committee and Gas Natural Fenosa employees are confidential, pursuant to the restrictions set forth in Organic Law 15/1999 of 13 December, governing the Protection of Personal Data. To this end, the Chairman of the Code of Ethics Committee (Director of Internal Auditing, Compliance and Control) is the sole member, at the initial stage, authorised to be aware of all the information from all the enquiries and notifications received from the group through the consultation and notification procedure. Notifications concerning fraud, auditing or faults in accounting processes or internal control are likewise sent directly to the Audit Committee.

These consultations and notifications are processed and resolved by the Code of Ethics Committee.

The 2015 Corporate Responsibility Report from Gas Natural Fenosa provides more detailed information on the Code of Ethics, the Anticorruption Policy, the activity of the Code of Ethics Committee and the use of the communication channel.

➤ **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the SCIIF, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the SCIIF, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Gas Natural Fenosa has a Corporate University responsible for managing the knowledge and development of persons in all areas of the company. The Corporate University has had its ISO 9001-2008 renewed in 2014, and has had its CLIP certification since 2003, having been renewed for the last time in 2013 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University include: to ensure management of knowledge at a multinational and multicultural organisation; to accompany the business in the key plans of the group; to position the organisation as a training benchmark in the energy sector; to ensure that employees acquire the technical knowledge and skills required to achieve the strategic objectives set and to transmit and share the experience and best practices that exist at the company.

The new training model of Gas Natural Fenosa has been introduced since 2013. This is based on training itineraries, which involves a major evolution in the skills model, given that it aligns training with business objectives to the greatest extent possible. Currently, 100% of Gas Natural Fenosa professionals have a learning itinerary, at least in part. The itineraries comprise three blocks: knowledge of context, which forms part of the itineraries and provides functional knowledge of the setting in which the company operates; functional expertise, assigned by the businesses to a position or to a profile; and skills, associated to the 24 skills set out in the Leadership Model of Gas Natural Fenosa. The Leadership Model has been deployed since 2012 by the different levels of the organisation.

In 2014, the Savia programme was launched, a training programme designed to strengthen the current role of the leaders, who should be the agents for change in the global implementation of the new processes associated with strategic challenges. The first stage of this programme finalised midway through 2015 with different acts of accreditation and the participation of 115 persons from the Economic-Financial department. The second stage, known as Savia 2.0, then commenced, and in 2015 the focus was on Management of Change and Customer Experience. 143 persons from the different units of the Economic-Financial Area (Administration and Tax, Management Control, Finances, Investor Relations and Risks) and from nine countries spent more than 2,000 hours on training in this second edition.

Another of the relevant programmes for Gas Natural Fenosa is the Commitment to Health and Safety, which began in 2014 and continued in 2015. This programme is designed to promote a qualitative cultural change in order to achieve a significant improvement in this field. In 2015, 259 people from the Economic-Financial Area took part in different training activities organised by the Corporate University within this programme, so amounting to a total of 930 hours dedicated to safety training.

In September this year, as part of the "Customer Experience Project", the Advocacy Programme, Ambassadors for Change, began. As part of the new culture of placing the customer as the focal point of operations, 270 corporate culture and brand ambassadors of Gas Natural Fenosa were elected, of which 18 belong to the Economic-Financial Area. The ambassadors are tasked with transmitting our values both at work as well as in their private life, and becoming real agents for change, encouraging the customer to be seen from an holistic standpoint.

Elsewhere, the specific knowledge for the Economic-Financial Area covers several objectives, including, making uniform the economic-financial processes developed in any area of the organisation; updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In total, in 2015 more than 320 professionals from the Economic-Financial Area spent almost 3,300 hours being trained on specific content. Prominent among these were: finance for laymen, management control, tax update and review, taxation, e-billing and prevention of money-laundering.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1 What the main characteristics in the risk identification process are, including error or fraud, with regard to:

> **If the process exists and it is documented.**

The approach used by Gas Natural Fenosa to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities.

The matrix for defining the scope of the financial reporting has the object of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions; changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled "Matrix for Defining Scope of Financial Reporting of Gas Natural Fenosa".

For each one of the accounts/significant breakdowns, the critical processes and sub processes associated with the accounts/significant breakdowns have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks Matrix of Financial Reporting of Gas Natural Fenosa".

Furthermore, the Risks Matrix has identified the risks associated to achieving the financial reporting targets, taking into account the effects of other risk typologies (i.e. operational, technological, financial, reputational, etc.) that form part of the Corporate Risks Map of Gas Natural Fenosa.

Lastly, control activities in terms of both general and processes, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the “Matrix of Activities of Control for Financial Reporting in Gas Natural Fenosa”.

The Scope Definition Matrix, and the Risks Matrix, the Control Activities Matrix, are updated every year.

> **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

In 2013, Gas Natural Fenosa, being aware of the importance of having a tool to ensure adequate control of SCIIF management, implemented the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Gas Natural Fenosa processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Gas Natural Fenosa, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014, the SAP GRC Process Control tool was introduced in Colombia and at the LATAM Economic-Financial Shared Services Centre. In 2015, this introduction has continued in new countries, such as Mexico and France, and we expect to gradually introduce it into the remaining countries where Gas Natural Fenosa is present. In the roll-out of SAP GRC Process Control, at national level and also internationally, the company was supported by the users responsible for the key controls of SCIIF and the Internal Auditing, Compliance and Control Unit.

We should point out that, during 2015, the scope of the SCIIF corporate model has spread to those countries where the group is new, such as Chile, as a consequence of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE), and to those countries where we already have existing businesses that have undergone significant development and growth, such as France. These incorporations strengthen and secure the Internal Control at Gas Natural Fenosa.

The SCIIF model of Gas Natural Fenosa is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the processes structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the SCIIF documentation and management of Gas Natural Fenosa in a uniform way.
- It integrates the internal control of financial reporting in business and corporate processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the SCIIF internal certification process.
- It uses workflows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.
- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the SCIIF supervision process by Internal Auditing.
- It allows both external and internal information required for reporting on the SCIIF to be obtained and supported.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests were performed in subsequent years according to the established schedules, whereby the units involved in SCIIF were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the actions plans necessary, to be identified and completed.

➤ **Whether there is a process to identify the consolidation perimeter, taking into account, *inter alia*, the possible existence of complex corporate structures, holding companies or special vehicle companies.**

Part of the critical processes identified includes the process for identifying the consolidation perimeter of Gas Natural Fenosa and it has been described in a technical instruction called "Consolidated Closing Cycle of Gas Natural Fenosa".

➤ **If the process takes other types of risks into account (operational, technological, financial, legal, reputation, environmental, etc.) insofar as they affect the financial statements.**

Within the risk identification process defined by Gas Natural Fenosa in its SCIIF, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Gas Natural Fenosa is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventive anti-fraud controls have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls attempt to stop fraud from being carried out through measures which are deterrents.

➤ **Which governing body of the company supervises the process.**

The Audit Committee is responsible for supervising the efficacy of the SCIIF. In order to carry out this function, the Audit Committee uses the Internal Auditing, Compliance and Control Unit and external audit (see section F.5).

F.3 Control activities

Report on, duly detailing their main characteristics, at least:

F3.1 Procedures for the review and authorisation of financial reporting, and the description of SCIIF, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations and projection.

Gas Natural Fenosa conducts regular reviews of the financial information prepared and of the description in the SCIIF according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Gas Natural Fenosa review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Gas Natural Fenosa is regularly reviewed by the head of the Economic-Financial Department, identifying possible deviations. In this regard, the Economic-Financial Department reports on the financial reporting regulated to the Audit Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting, procedures, judgements, estimates, assessments and processes used in drawing up the economic-financial information and the financial statements, regarding the main risks and contingencies and their cover by means of provisions, and regarding the Risk Management and Control Policies and Systems in Gas Natural Fenosa.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated financial statements presented to the Board of Directors for them to be approved.

Furthermore, as indicated in the "Internal Control System on Financial Reporting (SCIIF) General Standard" of Gas Natural Fenosa, control activities defined by the group in its SCIIF comply with the basic objective of ensuring that the financial reporting of Gas Natural Fenosa represents the true and fair image of the group.

The control activities defined in the SCIIF include both general controls and controls in critical points.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective SCIIF; in other words, they describe the policies and guidelines designed to protect Gas Natural Fenosa's SCIIF in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the SCIIF management tool, SAP GRC Process Control. In this regard, Gas Natural Fenosa has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
 - General control activities.
 - Processes control activities.
- Implementation: control activities have been classified into implemented and non-implemented.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detective.
- Frequency: based on the recurrence of the activity over time, for example: yearly, weekly, monthly, daily, etc.

Lastly, the SCIIF of Gas Natural Fenosa includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business and corporate units involved in the process of drawing up financial information. The Internal Financial Control Unit is responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the SCIIF of Gas Natural Fenosa (see section F.2.1).

The Internal Auditing, Compliance and Control Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certification process of the units which are responsible for carrying out the controls, to identify the weaknesses and action plans.

F3.2. Internal control policies and procedures on information systems (*inter alia*, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Gas Natural Fenosa which have been defined in the SCIIF of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Gas Natural Fenosa, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main data processing centres (Madrid and Barcelona) to facilitate availability of information systems in the event of any contingency. Only authorised staff is able to access those rooms, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IDS and anti virus to internally reinforce control against threats.

Work is also being done on drawing up and updating the BRS (Business Recovery Systems) of the main information systems.

Lastly, at application, operating system and database level, the user-password combination is used as preventive control. At data level, profiles have been defined to limit access thereto but a functions separation matrix to ensure that the functions are incompatible has not been developed.

b) Control of changes:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical, Changes and Business Committees.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Reversal procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have a management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

Most systems have a high level of local availability, as the servers have duplicated located in the same DPC. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy of data is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Separation of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Reporting Systems.

f) Regulatory compliance: Personal Data Protection Act (PDPA)

Gas Natural Fenosa complies adequately with the Personal Data Protection Act in order to safeguard and protect the personal data of its employees and customers based on the provisions of Organic Law 15/1999 of 13 December.

The file owners assures compliance with laws in Gas Natural Fenosa:

- Registering all personal data files before the Spanish Data Protection Agency (AEPD).
- Ensuring that the data are appropriate and accurate, and are treated in a way which is proportional for the purpose for which they were collected.
- Guaranteeing confidentiality and security requirements.
- Informing the data owners that the data is collected and obtains their consent for it to be processed.
- Guaranteeing that ARCO rights (access, rectification, cancellation and opposition) are exercised.
- Ensuring that laws are complied with, in its relations with third parties which lend services with access to personal data, drafting contracts to state that the data manager shall handle the data according to the instructions given by the data owner, that it shall not apply or use them for any other purpose other than that indicated in the aforesaid contract, nor shall it convey them, not even for their maintenance, to other persons (the same security measures as for the file owner are applied).
- Complying with the laws of the sector applying to Gas Natural Fenosa.

Pursuant to Article 9 of the PDPA, which addresses security measures and technology, Gas Natural Fenosa adopts the technical measures designed to safeguard the security of personal data and to prevent them from being altered, lost, or being processed or accessed in an unauthorised way to guarantee the confidentiality, integrity and availability of the data.

Pursuant to Article 96 of the PDPA, Gas Natural Fenosa performs twice-yearly audits on its Information Systems in order to comply with the regulations and all data protection procedures and instructions.

F3.3 Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Gas Natural Fenosa has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include an "General External Procurement Standard", a "General Supplier Quality Standard" and the procedures which implement them, and the "Counterparty Due Diligence Procedure (reputation and corruption risks)".

In this context, in the "General External Procurement Standard", Gas Natural Fenosa sets out the general principles which have to be applied to all awarding or procurement of works, goods and services carried out by the group, guaranteeing a uniform, efficient and quality model for managing the procurement process in Gas Natural Fenosa.

This standard also generally establishes the responsibilities of the different units in the procurement process, including the Procurement Area, which is responsible for promoting long-term relationships of trust with suppliers, establishing objective and impartial mechanisms for the assessment, selection and ensuring that the principles set out in the Code of Ethics of Gas Natural Fenosa, the Human Rights Policy and the Health and Safety Policy, are complied with at all times. It also indicates that it is compulsory to carry out an initial assessment of all potential suppliers before they take part in a procurement process, and in which legal, financial, solvency, quality, safety, environment and corporate responsibility matters, *inter alia*, will be assessed, as well as the regular assessment thereof. In certain processes, they need to be certified/approved to ensure the quality of the goods and services which are acquired, in collaboration with business units.

With this objective, Gas Natural Fenosa has carried out, in the “General Supplier Quality Standard” and in the procedure which implements it, the basic principles which are applicable to the group's supplier assessment and approval/certification process, including the setting up of procedures and controls to guarantee compliance with the requirements set out in the specifications by potential suppliers and companies awarded contracts, and also suppliers of services or supplies of materials included in the certification needs defined by criticality or amount needs also have to be certified.

Performance is also measured through satisfaction surveys on suppliers considered to be significant in view of their amount or importance, and in cases in which it is necessary, pertinent corrective measures shall be established in any stage of the process.

In this context, the Procurement Area, in keeping with the criteria of Gas Natural Fenosa, defines or agrees on the indicators for the control of the assessment and certification process before suppliers and products are procured, and monitoring the maintenance of the procurement requirements, to guarantee the quality levels of the products and services acquired. For suppliers which carry out activities or which supply products which need to be certified, three main types of certification have been defined (A, B or C). For the first category (A), the supplier has to comply with the requirements demanded by Gas Natural Fenosa for the activity to be carried out and be in the possession, for them, of an ISO 9001 in force and issued by an authorised certification agency. In category B, the supplier complies with the requirements set out by Gas Natural Fenosa for the activity to be carried out but it does not have a certified quality management system. The question of whether one or another certification is required will be determined depending on the quantitative or qualitative importance in relation to the service rendered.

The third of the categories (C) is provisional, and refers to cases of suppliers with non-conformities in the certification process but which have presented a Corrective Action Plan which has been accepted by Gas Natural Fenosa. Within the granted term, which is never longer than one year, and once the drafting and roll-out of that plan has been confirmed, suppliers shall obtain the required category.

The main areas which affect the critical processes of the financial information which Gas Natural Fenosa has subcontracted to third parties are as follows:

- Certain processes of the Systems Area.
- Reading and measuring processes.
- Certain Customer Service processes.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Also, the Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to suppliers/products/persons as a result of deficiencies in the performance of services or products.

Gas Natural Fenosa uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Gas Natural Fenosa has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputation risks involved in business relations with third parties, and, in particular, covering misconduct associated with the risk of corruption.

The Internal Auditing, Compliance and Control Unit of Gas Natural Fenosa audits the processes and correct application of Procurement and Supplier Quality Standards and Due Diligence of the Counterparty and if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

Report on, duly detailing their main characteristics, at least:

F4.1 A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, *inter alia*, of the Economic-Financial Department, via the Accounting Planning and Financial Internal Control Unit, is to keep the accounting policies applicable to the group up to date. In this regard, it is responsible for updating the "Gas Natural Fenosa Accounting Plan", which includes the group's accounting criteria and accounts plan, and an analysis of the accounting changes which might have an impact on the financial reporting of Gas Natural Fenosa.

The updating of the "Gas Natural Fenosa Accounting Plan" is performed yearly, and the last update was carried out in December 2015. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Gas Natural Fenosa, which is used as a basis for preparing the different reporting of the financial information to be supplied to external bodies and of the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Gas Natural Fenosa intranet. Furthermore, after the updated Accounting Plan is published on the intranet, an online alert is sent to users who access the intranet, thus informing all the staff of the update.

The Accounting Planning and Financial Internal Control Unit is responsible for analysing the IFRS-EU regulations that might have a significant impact on financial statements and for reporting to the Gas Natural Fenosa management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Gas Natural Fenosa financial reporting.

F4.2 Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company or the group, used to support the main financial statements and the notes, as well as the information set out in detail on the SCIF.

The complete economic-financial management model of Gas Natural Fenosa guarantees that the administrative and accounting processes are uniform by means of the centralisation of the accounting and economic administration in Economic-Financial Shared Services Centres (CSCs) and the use of SAP as a support system in all the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows:

- > it is unique for all countries and businesses;
- > it includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- > it includes internal control requirements;
- > it is used as a base for obtaining information furnished to senior management and to official bodies;
- > it is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group SCIIF, the interrelations map of the process of drawing up financial information of Gas Natural Fenosa has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the financial reporting and its breakdowns of Gas Natural Fenosa, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process and Management Control in tasks such as:

- > Standardisation of information.
- > Validation of information.

The economic information - both the financial information and the management information - is drawn up in centralised form in the Integrated Reporting Centre, which ensures that the reporting of Gas Natural Fenosa is integrated, homogeneous, consistent and streamlined.

Gas Natural Fenosa also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

F.5 Supervision of system operation

Report on, duly detailing their main characteristics, at least:

F5.1 The supervisory activities of the SCIIF carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the SCIIF. Information will also be provided on the scope of the assessment of SCIIF carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit Committee has the powers set out in law and those that are assigned by the Board of Directors, either in general or for a specific purpose. These powers include the following:

- Supervising the preparation process, presentation and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the bookkeeping criteria.
- Supervising the efficacy of the company's internal control, internal auditing and risk management systems, including tax risks, as well as discussing with the accounts auditor any significant weaknesses of the internal control system detected during the audit.
- Reporting to the General Meeting of Shareholders on issues that arise with regard to those matters which the committee is responsible.

- Forwarding proposals for selection, appointment, re-election and replacement of the external auditor to the Board of Directors, as well as the conditions for their procurement. Moreover, to frequently get information from the auditor on the audit plan and the performance of this, and to ensure the auditor's independence in the performance of its duties.
- Liaising with external auditors to receive information on any questions which could jeopardise their independence, to be examined by the committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards. Under all circumstances, every year the committee must receive the declaration of the auditor's independence with regard to the entity or entities directly or indirectly related to the company, as well as information on any additional services rendered and the corresponding fees received by the external auditor or by the persons or entities related to this party, pursuant to the provisions set down in accounts auditing regulations.
- Every year, before issuing the Audit Report, to provide a report that gives an opinion on the independence of the accounts auditors. In all cases, this report must contain an assessment of the provision of each of the additional services referred to above, considered on an individual basis and as a whole, separate from the legal auditing and with regard to the structure of independence or with regard to accounts auditing regulations.
- Ensuring independence of the unit that assumes the internal audit function; approving the work plans and guidelines, making sure that its activities are mainly focused on relevant risks for the company; receiving periodic information on its activities; and verifying that senior management take into consideration the conclusions and recommendations of its reports. Making proposals to the Chairman of the Board of Directors with regard to the selection, appointment, re-election and removal from office of the party responsible for the internal audit service, and proposing the budget for that service. The final decision lies with the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit Committee avails itself of the information and documentation provided by the Internal Auditing, Compliance and Control, and Economic-Financial Units.

The Internal Auditing, Compliance and Control function was established in Gas Natural Fenosa as a means of independent and objective assessment and for this reason the Internal Audit, Compliance and Control Area reports to the Audit Committee and to the Chairman and Chief Executive Officer of Gas Natural SDG, S.A.

It has the task of guaranteeing the continuous review and improvement of the group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the efficacy and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates, particularly operating risks, and corruption, fraud and legal risks. It is also held responsible for managing the Crime Prevention Model and the Code of Ethics Model of Gas Natural Fenosa, as well as reporting on internal audit activity to the Audit Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, as well as an assessment of the controls and the operational risks associated to these procedures (including those established in the SCIIF and the Crime Prevention Model), through definition and introduction of the "Annual Internal Audit Plan", to improve efficacy and efficiency of these. It also provides support to the divisions in achieving their objectives.

The overall aim is to safeguard the efficacy and efficiency of operations and mitigate the main risks in each sphere of Gas Natural Fenosa, in particular the operational, corruption, fraud and legal risks.

The Strategic Audit Plan (with a time frame of five years) and the Annual Internal Audit Plans are drawn up principally on the basis of the group's annual Corporate Strategic Plan, the risk areas included in the Corporate Risk Map, the Internal Control System on Financial Reporting (SCIIF) scope matrix, the operational risk maps, the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

In accordance with the Strategic Audit Plan, the Internal Control System of Gas Natural Fenosa is fully supervised by the Internal Auditing for five years.

The methodology for the assessment of operational risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enables mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (SCIIF), Internal Auditing is in charge of:

- Validating the proper design of the SCIIF, based on the basic principles of the model approved by the Audit Committee.
- Supervising the efficacy and adaptation of control policies and procedures put in place (in full over five years).
- Revising and assessing of conclusions on compliance and effectiveness of the SCIIF resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).
- Assessing and communicating the results obtained in the process of supervising the Internal Control System on Financial Reporting (SCIIF) and the controls of the SCIIF processes.

With regard to the Crime Prevention Model, the Internal Auditing, Compliance and Control Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying or mitigating the occurrence of legislation-typified crimes.

The main processes revised by the Internal Audit Area in 2015 were those concerning:

> Business processes:

- Gas distribution: reading and calculation of consumption, capture and putting into service, network construction, managing gas distribution storage facilities.
- Electricity distribution: managing electricity distribution storage facilities, operations, high, medium and low voltage development, management of irregularities and fraud.
- Generation: operation and maintenance of generation assets, development and launch of new projects, storage management.
- Retail commercialisation: management of energy customers and products, capture and procurement of energy and products.
- Wholesale commercialisation and global accounts: sales to industrial customers.
- Supplies and transportation: purchases of gas, purchases of LNG.
- Exploration and production: exploration/production.
- Energy management: sales of electricity.

> Strategy and support processes:

- Customer service: payment, billing, arrears management and customer service.
- Physical resources management: purchases within and outside of the perimeter, general services, due diligence of the counterparty.
- Internal control management: monitoring corrective actions, SCIF.
- Management of information systems: economic-administrative management of integral services, information security.
- Human resources management: human resources administration and services.
- Management of communication and ER: sponsorship, corporate responsibility.
- Management of financial and economic resources: treasury stock.
- Review of the group's regulatory system.
- Code of Ethics.
- Updating of Operational Risk Map.
- Analysis of progress in the introduction of Delta and Zeus.
- Assessment review and attainment of the Efficiency Plan.
- Italy judicial administration.
- Crime Prevention Model.

46.4% of the review processes correspond to Spain and the remaining 53.6% to the international sphere.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F5.2 If the company has a discussion procedure through which the accounts auditor (as established in the NTA), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in Article 6.4 of the Regulation of the Board and of its Committees:

"The Board of Directors will hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost".

In Article 9 of this regulation, it is stipulated that:

"The Board shall meet once every two months and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the company. The Ordinary Board sessions shall deal with general matters related to group operation, economic results, the balance sheet, cash flow status and its comparison with the approved budget, matters mentioned in Article 5, where applicable, and, in any case, the points included on the agenda prepared in accordance with the provisions of these regulations. These regular meetings shall also be occasion for the Board to receive specific information regarding achievements and the most significant operational problems, and foreseeable situations that may be critical for company affairs and the actions that management may propose in order to deal with them, as the case may be..."

In this regard, the members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Executive Committee, which is specifically empowered with the continuous monitoring of the top-tier management of the group, and also the Audit Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the efficacy of the internal control system.

The continued monitoring of the top-tier company management at is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association and Regulations of the Board of Directors and of its Committees, or assigned to it by the Board of Directors itself.

In accordance with the Articles of Association and Regulations of the Board of Directors and of its Committees, the Audit Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the Non-executive Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected. At least two of the committee members will be an Independent Director. At 31 December 2015, the committee was made up of three Directors, one Proprietary and two Independents; and one of the latter, in turn, was the Chairman.

The Board of Directors will elect the Chairman of the committee, who will not have the casting vote and who must be replaced in accordance with the provisions set out in the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

The sphere of activity of the Audit Committee extends to:

- > Gas Natural SDG, S.A.
- > Companies in which Gas Natural SDG, S.A. holds a majority interest.
- > Other entities and companies for which Gas Natural SDG, S.A. has in some form the effective control or responsibility for management or operation.

The Internal Auditing, Compliance and Control Unit regularly reports to the Audit Committee on the actions taken to ensure that Gas Natural Fenosa complies with all the policies, standards and controls of the processes established by the top-tier management of the group.

They also present:

- > The Annual Internal Audit Plan for the committee's approval.
- > The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- > The assessment of the efficacy of the Control System and assessment of operational and Internal Control risks of Gas Natural Fenosa (including those referring to SCIIF and to the Crime Prevention Model), including the corresponding Action Plans to improve the level of internal control.
- > The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit Committee.

Likewise, the Economic-Financial Department reports on the financial reporting regulated to the Audit Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting procedures, opinions, estimates, assessments and processes used in drawing up the economic-financial information and the financial statements; the main risks and contingencies and the hedging of these through provisions; the Management Policies and Systems and Risk Control at Gas Natural Fenosa, and the relevant matters associated with the drawing up and definition and conclusions of the Corporate Risk Map of Gas Natural Fenosa.

Lastly, the external auditor informs the Audit Committee of any significant weaknesses in internal control detected during the audit. The external auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

F.6 Other relevant information

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System on Financial Reporting of Gas Natural Fenosa, it has been decided to carry out an annual internal certification process whereby, through SAP GRC Process Control, the Business and Corporate Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Financial Control Unit of weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2015 year, Gas Natural Fenosa carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

	Spain	International	Total
Business or Corporate Units	138	221	359
Processes identified	54	190	244
Controls certified	887	2,167	3,054

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 56, five of which were in Spain. In 2015, 73% of the action plans identified in 2014 were resolved, and new plans arose during 2015. In any case, the sub-processes affected by these action plans do not significantly affect the quality of financial reporting.

F.7 Report by the external auditor

Reports on:

F.7.1 If the SCIIF information submitted to the markets has been reviewed by the external auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Gas Natural Fenosa has deemed it pertinent to ask the external auditor to issue a report referring to the information on the Internal Control System on Financial Reporting (SCIIF).

G. Degree of Compliance with Corporate Governance Recommendations

Indicate the company's degree of compliance with the recommendations given in the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations will not be acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;

- b) The mechanisms in place to solve possible conflicts of interest that may occur.

Not applicable

3. During the annual General Meeting, the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the Annual Corporate Governance Report. In particular:

- a) Changes taking place since the previous annual General Meeting;

- b) The specific reason for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies

5. The Board of Directors should not make a proposal to the General Meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies partially

The last authorisation for a share capital increase given by the Board was agreed at the General Meeting on 20 April 2012 for a five-year period and up to the maximum amount of half of the share capital at the time of the authorisation.

This authorisation included the power to remove the pre-emptive subscription right, with issuance of the corresponding report which was placed at the disposal of shareholders.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual General Meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.
- b) Reviews of the operation of the Audit Committee and the Appointments and Remuneration Committee.
- c) Audit Committee report on related-party transactions.
- d) Report on corporate social responsibility policy.

Complies

7. The company should broadcast its general meetings live on its corporate website.

Complies

8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the General Meeting without limitations or qualifications in the Auditor's Report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content of said reservations or exceptions.

Complies

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedure should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the General Meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to put assumptions or deductions about the direction of votes.
- d) After the General Meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Not applicable

11. In the event that a company plans to pay for attendance at the General Meeting, it should first establish a general, long-term policy in this respect.

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations, and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, customers and other stakeholders, as well as with the impact of its activity on the broader community and the natural environment.

Complies

13. The Board of Directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and 15 members.

Explain

At present, the Board of Directors of Gas Natural SDG, S.A., within the minimum number of 10 members and a maximum of 20 members laid down in Article 41 of the Articles of Association, by virtue of the agreement adopted by the General Meeting of Shareholders held on 23 June 2003, comprises 17 members. This number is two more than Recommendation 13 of the Good Governance Code, although the company understands that the current size of the Board is appropriate to enable a company with a high level of significant shareholders to be able to find an appropriate balance between Proprietary and Independent Directors. Furthermore, there is also a sufficient number of the latter to take part on the different committees where their presence is required. This number in no way limits or restricts efficient and participative performance of this governing body.

14. The Board of Directors should approve a Director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of the Board needs to be written up in the appointment committee's explanatory report, to be published when the General Meeting is convened to ratify the appointment and re-election of each Director.

The Director selection policy should pursue the goal of having at least 30% of total Board places occupied by women Directors before the year 2020.

The Appointments Committee should run an annual check on compliance with the Director selection policy and set out its findings in the Annual Corporate Governance Report.

Complies partially

The Director selection policy seeks to ensure that the selection procedures have no implicit bias that could imply any discrimination whatsoever. Although the target of having one third of women Board Members by 2020 has not been made explicit, at the last General Meeting of Shareholders 50% of new Directors were women (66.7% if we consider only the new Independent Directors).

15. The External Proprietary and Independent Directors should represent a broad majority of the Board of Directors and the number of Executive Directors should be the required minimum, taking into account the complexity of the corporate group and the percentage of participation of the Executive Directors in the company's capital.

Complies

16. The percentage of Proprietary Directors out of all Non-executive Directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Complies

17. The number of Independent Directors should represent at least half of the total number of Directors.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, Independent Directors should occupy at least one third of Board places.

Complies

18. The companies should publish the following information about their Directors on their website and keep the said information up-to-date:

- a) Professional and biographical profile.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatsoever nature.
- c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked.
- d) Date of the first appointment as Director of the company, as well as subsequent appointments.
- e) Company shares and stock options of which they are the holder.

Complies

19. Following verification by the Appointments Committee, the Annual Corporate Governance Report should disclose the reasons for the appointment of Proprietary Directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary Directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Not applicable

21. The Board of Directors should not propose the removal of any Independent Director before the fulfilment of the statutory term for which he/she has been appointed, except when there is just cause, understood as such by the Board of Directors after a report issued by the Appointments Committee. In particular, just cause will be presumed when Directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a Board Member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent pursuant to applicable legislation.

The removal of Independent Directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board membership ensue from the proportionality criterion set out in Recommendation 16.

Complies

22. The companies should establish rules that oblige the Directors to report and, where applicable, resign in cases that could damage the company's reputation and credit and, in particular, oblige them to inform the Board of Directors of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

The moment a Director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he/she should be called on to resign. The Board of Directors should give a reasoned account of all the events in the Annual Corporate Governance Report.

Complies

23. All the Directors should clearly express their opposition when they consider that any proposed decision submitted to the Board may be contrary to the company's interests. And this should apply especially to the Independent Directors and other Directors not affected by the potential conflict of interest in the case of decisions that may damage the shareholders not represented on the Board of Directors.

When the Board of Directors adopts significant or reiterated decisions on which the Director has formulated serious reservations, the said Director should draw the corresponding conclusions and, if he/she decides to resign, explain the reasons in the letter referred to in the following recommendation.

The scope of this recommendation also includes the Secretary of the Board, even though he/she does not have the status of Director.

Complies

24. When, either due to resignation or any other reason, a Director abandons his/her post before the end of his/her mandate, he/she should explain the reasons in a letter sent to all the members of the Board of Directors. And, without prejudice to the said resignation being notified as a relevant event, the reason for the resignation should be accounted for in the Annual Corporate Governance Report.

Not applicable

25. The Appointments Committee should ensure that Non-executive Directors have sufficient time available to discharge their responsibilities effectively.

The Board regulations should lay down the maximum number of company Boards on which Directors can form part.

Complies partially

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit.

26. The Board should meet as regularly as necessary to carry out its functions effectively, and at least eight times a year, following the schedule of dates and issues laid down at the beginning of the year, where each Director may propose other items for the agenda not considered initially.

Complies partially

In accordance with Article 9 of the Board Regulations, 1/3 of the Directors may propose other items of the agenda for the Board meeting.

27. The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. In the event of an absence, Directors should delegate their powers of representation with the appropriate instructions.

Complies

28. When the Directors or the Secretary express concern for any proposal or, in the case of the Directors, for the company's progress and the said concern is not resolved by the Board of Directors, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies

31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of Directors present.

Complies

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's chief executive; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies

34. When a lead Independent Director has been appointed, the Articles of Association or Board regulation shall grant him/her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Vice-chairmen; give voice to the concerns of Non-executive Directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Complies partially

The lead Independent Director has the powers that legally correspond.

35. The Board Secretary should strive to ensure that the Board's actions and decisions are informed by the government recommendations of the Good Governance Code of relevance to the company.

Complies

36. The Board in full should conduct an annual evaluation, adopting where necessary an action plan to correct weaknesses detected in:

- a) The quality and efficiency of the Board of Directors' operations.
- b) The performance and membership of its committees.
- c) The diversity of Board membership and competences.
- e) The performance of the Chairman of the Board of Directors and the company's chief executive.
- f) The performance and contribution of individual Directors, with particular attention to the chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Complies

37. When an Executive Committee exist, its membership mix by Director class should resemble that of the Board. The Secretary of the Board should also act as Secretary to the Executive Committee.

Complies

38. The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

Complies partially

At each Board session, the items dealt with on the Executive Committee, on the Audit Committee and on the Appointments and Remuneration Committee are reported. The minutes of the committees are made available to Directors but are not sent on the grounds of confidentiality.

39. The members of the Audit Committee and, in particular, its Chairman should be appointed on the basis of their know-how and experience in bookkeeping, audits and risk management, and the majority of these members should be Independent Directors.

Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's Non-executive Chairman or the Chairman of the Audit Committee.

Complies partially

The Audit Department answers to the Executive Chairman.

41. The person responsible for the unit that assumes the internal audit function should present his/her annual work plan to the Audit Committee; he/she should inform it directly of the incidents occurring during its development and, at the end of each year, submit an activities report.

Complies

42. The Audit Committee should have the following functions over and above those legally assigned:

1. In relation to the internal control and reporting systems:

- a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
- b) Ensuring independence of the unit that assumes the internal audit function; proposing the selection, appointment, re-election and removal of the head of the internal audit service; proposing the service's budget; approving the work plans and guidelines, making sure that its activities are mainly focused on relevant risks for the company; receiving periodic information on its activities; and to verifying that senior management take into consideration the conclusions and recommendations of its reports.

c) Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous.

2. In relation to the external auditor:

a) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.

b) Ensure that the remuneration of the external auditor does not compromise its quality or its independence.

c) Supervise the company notifies the change of auditor to the CNMV as a relevant event and attach a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreements, the content thereof.

d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and the evolution of the accounting situation and of the company's risks.

e) Ensure that the company and the external auditor observe current standards on the provision of services other than auditing services, the limits to the auditor's business concentration and, in general, the other standards established to guarantee the independence of auditors.

Complies

43. The Audit Committee should be able to call any of the company's employees or managers, and also have them appear without the presence of any other executive.

Complies

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies

45. The risk control and management policies should identify at least:

a) The different types of financial and non-financial risks the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise.

d) Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the company's internal departments or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control management systems are mitigating risks effectively within the frame of the policy drawn up by the Board of Directors.

Complies

47. Appointees to the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

Complies

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Explain

The company has a single Appointments and Remunerations Committee on the understanding that it is neither necessary nor efficient to separate their duties.

49. The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

And any Director should be able to request the Appointments Committee to consider potential candidates they deem ideal to cover vacancies.

Complies

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the Board of Directors the basic conditions for the contracts of senior management.
- b) Ensure observance of the remuneration policy laid down by the company.
- c) Perform a regular review of the remuneration policy applied to Directors and senior management, including the share option system and the application of this, as well as ensuring that their individual remuneration is proportionate to that paid to other Directors and senior managers of the company.
- d) Ensure that any possible conflicts of interest do not jeopardise the independence of the external advice received by the committee.
- e) Verify the information on remuneration of Directors and senior managers contained in the different corporate documents, including the annual report on remuneration to Directors.

Complies

51. The Remuneration Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors and senior executives.

Complies

52. The terms of reference of supervision and control committee should be set out in the Board regulations and aligned with those governing legally mandatory Board committees as specified in the preceding set of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by Non-executive Directors, with a majority of Independents.
- b) Their Chairmen should be Independent Directors.
- c) The Board should appoint the members of these committees, bearing in mind the know-how, skills and experience of the Directors and the missions of each committee; it should deliberate on its proposals and report; and it should report on its activities and respond for the work carried out during the first plenary session of the Board after its meetings.
- d) Outsourced consultancy should be used whenever deemed necessary for the performance of their duties.
- e) Meeting proceedings should be minuted and a copy made available to all Board Members.

Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at least the following functions:

- a) The supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.
- b) The supervision of the communication strategy and relations with shareholders and investors, including the small and medium shareholders.
- c) Regular assessment of the appropriateness of the company's corporate government system, to ensure that it complies with its mission of fostering social interest and takes into consideration, as appropriate, the legitimate interests of remaining stakeholders.
- d) The review of the company's corporate responsibility policy, ensuring this is focused on the creation of value.
- e) The monitoring of the corporate social responsibility strategy and practices, and assessment of its level of compliance.
- f) The supervision and assessment of relationship processes with the different stakeholders.
- g) The assessment of everything concerning non-financial risks of the company -including operational, technological, legal, social, environmental, political and reputational risks.
- h) The coordination of the system for reporting on non-financial information and diversity, pursuant to the applicable regulations and the international benchmark standards.

Complies

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholders, specifying at least:

- a) The goals of its corporate social responsibility policy and support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Specific practices in issues relative to: shareholders, employees, customers, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies

55. The company should report on corporate social responsibility developments in its Management Report or in a separate document, using an internationally accepted methodology.

Complies

56. The remuneration of Board Members should suffice to attract and retain the right people and to sufficiently compensate them for the dedication, abilities and responsibilities that the post demands, but should not be so high as to compromise the independent judgement of Non-executive Directors.

Complies

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or be remunerated on the basis of share-price movements and membership of long-term savings schemes such as pension plans should be confined to Executive Directors.

The company may consider the share-based remuneration of Non-executive Directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the Director must dispose of to defray costs related to their acquisition.

Complies

58. In the case of variable remuneration, the remuneration policies should incorporate limits and the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the company's activity sector or other similar circumstances.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60. The remuneration related to the company's results should take into account the possible exceptions included in the External Auditor's Report, which may reduce the said results.

Explain

The variable remuneration of the CEO is not linked to company earnings should bear in mind any qualifications stated in the External Auditor's Report that reduce the amount. This is not a situation that has occurred at the company in the past.

61. A major part of Executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Explain

The variable remuneration of the CEO is not linked to the award of shares or financial instruments whose value is linked to the share price.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise share options or other rights on shares for at least three years following their reward.

This condition, however, will not apply to shares that the Director must dispose of to defray costs related to their acquisition.

Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be mis-stated.

Explain

The contract signed with the CEO is from February 2005 and makes no such allowance.

64. Termination payment should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he/she has met the predetermined performance criteria.

Explain

The contract signed with the CEO is from February 2005 and provides for certain cases in which the financial compensation received by the CEO through termination of his contract would be equivalent to three annual payments plus a fourth year for noncompetition.

H. Other Information of Interest

1. If there is any relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it were necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.
2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. The company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, it shall state whether or not the Code of Good Tax Practices, of 20 July 2010, has been adhered to.

At its meeting on 17 September 2010, the Board of Directors agreed that Gas Natural Fenosa would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Gas Natural Fenosa has effectively complied with the content of this code and, more specifically, at the meeting held on 29 January 2016, the Board of Directors of Gas Natural Fenosa was notified about the tax policies adhered to by the group in 2015.

Note to C.1.12. Clarification of the position

Mrs Cristina Garmendia Mendizábal is Chairwoman of the Supervisory Board of Synigs AG.

Mrs Benita María Ferrero-Waldner is member of the Supervisory Board of Munich Reinsurance CO.

Note to C.1.45

The CEO's contract has been approved by the company's Board of Directors.

Note to D.4

All transactions carried out by companies or group companies with other entities belonging to the same group form part of the company's normal business activities in terms of their object and conditions. Details of transactions not eliminated in the drafting of consolidated financial statements appear in note 32 of the Consolidated Annual Accounts.

Pursuant to Spanish laws which determine which countries are considered to be tax havens (Royal Decree 1080/1991 of 5 July and Royal Decree 116/2003 of 31 January), Gas Natural Fenosa has the following shareholdings in companies incorporated in those territories:

- The holdings of 95% in Buenergía Gas & Power, Ltd, of 47.5% in Ecoeléctrica Holding, Ltd and of 47.5% in Ecoeléctrica Limited, are all registered in the Cayman Islands. They are companies which directly or indirectly own a single industrial shareholding which carries out the electrical generation activity by gas combined cycle plant in Puerto Rico (Ecoeléctrica, L.P.), which pay tax on their income in this country and which do not offer any kind of tax advantage for Gas Natural Fenosa.
- The 31.05% stake in Gasoducto del Pacífico (Cayman), Ltd, domiciled in the Cayman Island. This is a company which do not engage in business activities and which was included in the group as a result of the acquisition of the CGE group, and as such do not offer any type of tax advantage to Gas Natural Fenosa.

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on 29 January 2016.

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

No

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